

# Aotearoa New Zealand Sustainable Finance Taxonomy methodology report

Defining overall activity categories eligible for  
inclusion in the Green or Transition categories  
for climate change mitigation

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## Introduction

The Aotearoa New Zealand Sustainable Finance Taxonomy (hereafter the 'NZ Taxonomy') is a framework to support this country's long-term prosperity and resilience. **It defines economic activities which contribute to an environmental objective and criteria to assess the performance of those activities.**

By providing clear, credible and consistent criteria for identifying and classifying environmentally sustainable activities, the NZ Taxonomy intends to enable financial market participants to more easily identify environmentally sustainable investment opportunities, mitigate greenwashing risks, reduce friction and cost, and support capital allocation decisions which enable New Zealand's sustainable future.

The NZ Taxonomy is one tool that can be used to support Aotearoa New Zealand's transition to a lower emissions economy. It is intended to operate within a broader framework of national policy, sector-specific emissions reduction plans, emissions pricing mechanisms, national and regional adaptation plans, corporate efforts, and community actions in order to achieve Aotearoa New Zealand's climate goals.

**The NZ Taxonomy has prioritised the development of criteria for climate change mitigation and climate change adaptation and resilience (A&R) in its initial development phase.**

The prioritisation of the climate change mitigation goals reflects the urgent market need for credible and usable guidance to identify activities that are aligned with or make a substantial contribution towards achieving the Paris Agreement temperature goals. It also supports interoperability with international taxonomies and consistency with sustainability-related disclosure frameworks, which have similarly prioritised climate change mitigation to date.

Under the climate change mitigation Substantial Contribution (SC) criteria, the NZ Taxonomy has a focus on **Transition activities and measures**. The Transition category is intended to support the decarbonisation of industries which are hard to abate but are significant for social and economic wellbeing such as steel, cement, aviation, agriculture. By creating definitions and criteria for these activities, the NZ Taxonomy aims to facilitate investment to support the transition of these industries.

One of the key challenges for taxonomies is determining which activities are eligible to be included in the Transition category. This report outlines the methodology for identifying overall activity categories that are eligible for inclusion under the climate change mitigation objective and the criteria for classifying them as Green or Transition.

This methodology has been developed drawing on international best practices, including frameworks from the European Union (EU), Singapore, Canada, and Australia, while also ensuring cultural integrity and alignment with domestic priorities. It incorporates principles such as evidence-based credibility, interoperability with global standards, and regular updates to adapt to evolving science and technology.

The climate change mitigation methodology applies across all sectors included in the NZ Taxonomy.



## NZ Taxonomy structure and alignment

The NZ Taxonomy is made up of three sets of criteria, which together are the 'Technical Screening Criteria':

1. Substantial Contribution (SC) criteria: The activity demonstrates that it makes a substantial contribution to the environmental objective (i.e., climate change mitigation or A&R).
2. Do No Significant Harm (DNSH) criteria: The activity making this substantial contribution does not cause significant negative impacts on other environmental objectives.
3. Minimum Social Safeguards (MSS): Entities must meet minimum standards for social responsibility, including labour rights, governance rights and Indigenous rights.

The first version of the NZ Taxonomy can be utilised in any of the following three ways:

1. Demonstrating alignment with the SC criteria for climate change mitigation or climate change A&R and alignment with *all* applicable DNSH and MSS criteria.
2. Demonstrating alignment with the SC criteria for climate change mitigation or climate change A&R and *partial* alignment with the applicable DNSH and/or MSS criteria.
3. Demonstrating alignment with the SC criteria for climate change mitigation or climate change A&R *only*.

Users making claims of alignment with the NZ Taxonomy Version 1 **are responsible for disclosing the parts of the NZ Taxonomy to which they are aligning** (and those to which they are not), and ensuring that the impression conveyed by those claims is not misleading or deceptive.

All users are encouraged to give consideration to relevant aspects of the DNSH and MSS frameworks.

In future versions of the NZ Taxonomy, it is intended that the DNSH and MSS frameworks will become a requirement for claims of NZ Taxonomy alignment, i.e., there will be no partial alignment options, only alignment or no alignment. Consideration for proportional application of the DNSH and MSS criteria will be given at this time.

**Under Version 1, any entity found in breach of any law or regulation within scope of the DNSH or MSS frameworks, at the time of their alignment claims or in the previous five years, will be excluded from alignment with the NZ Taxonomy.** The NZ Taxonomy and its users are not responsible for verifying an entity's compliance with New Zealand laws and regulations.



## Background

In 2024, following initial scoping and stakeholder engagement by the Centre for Sustainable Finance: Toitū Tahua (CSF) and the Ministry for the Environment (MfE), the Minister of Climate Change invited the CSF to provide recommendations on the key design considerations for a NZ Taxonomy. These recommendations formulated by an Independent Technical Advisory Group (ITAG), were published in final form in July 2024, in the report '[Developing a Sustainable Finance Taxonomy for Aotearoa New Zealand: Key design recommendations prepared for the Minister for Climate Change by an Independent Technical Advisory Group](#)'.

Work to develop a NZ Taxonomy for climate change mitigation and A&R criteria, beginning with the agricultural and forestry sectors, was directed by the Minister of Climate Change based on these recommendations, and work commenced in November 2024.

The development of the NZ Taxonomy is managed in partnership between the New Zealand Government and the CSF with input from experts through the formal NZ Taxonomy governance structure (see Appendix 4) and public consultation.

The design recommendations clarified that the purpose of the NZ Taxonomy is to mobilise and direct capital flows towards:

- Building a low-emissions, Paris-aligned future
- Restoring nature
- Upholding the rights and interests of Indigenous Peoples of the land

To achieve the goal of the Paris Agreement, capital markets and investors need to be able to make rational choices about their investments and use tools that can help them screen economic activities according to evidence-based environmental performance – for instance, the degree to which those activities ensure greenhouse gas (GHG) emission reductions or the degree to which they help build infrastructure that is adapted to a changing climate.

Taxonomies do not set policy, or limit what can be financed, but rather, establish standardised, transparent and credible parameters for stakeholders who wish to direct finance towards activities with a particular environmental objective such as climate change mitigation. A taxonomy does not determine which activities are included in an economy, and activities that are not included in a taxonomy are not excluded from general finance and investment choices. It is also not the role of a taxonomy to determine the appropriate balance between emissions removals and gross emissions reductions. The NZ Taxonomy is intended to operate within a landscape of national policy, sector specific emissions reduction plans, emissions pricing mechanisms, national and regional adaptation plans, corporate efforts, and community actions.

New Zealand has joined other jurisdictions including Australia, the EU, Singapore and Canada in developing taxonomies for the purpose of directing capital flows toward building a low-emissions, Paris-aligned future. An overview of the approach to transition in other jurisdictions is provided in Appendix 1 to this paper – 'Lessons from other Taxonomies'.

Also, within the region, the Prime Ministers of Australia and New Zealand have committed to a [Trans-Tasman Roadmap to 2035](#), which features climate as a priority for alignment between the two countries. A key focus of the Roadmap is sustainable finance frameworks to position the region as an attractive green finance hub. It is the intention of the New Zealand and Australian Governments to align the respective taxonomies closely, to the extent possible.

The NZ Taxonomy intends to not only to strengthen its sustainable finance ecosystem, but also to provide clarity for investors and stakeholders, and to establish itself as a leader in integrating Indigenous perspectives into sustainable finance solutions. The guiding principles for the NZ Taxonomy are outlined in Appendix 2.

An independent Technical Expert Group (TEG) (see Appendix 3) has been appointed to develop the NZ Taxonomy, with a focus on usability and interoperability. In addition, sector-specific Technical Advisory Groups (TAGs) have been – and will continue to be – appointed to provide technical input into the development of measures, practices and TSC for each sector. The governance structure for the Taxonomy is outlined in Appendix 4.



## Objectives beyond climate

As per ITAG Recommendation 4 of the [ITAG recommendations report](#) (July 2024) on the design of the NZ Taxonomy, the environmental objectives of the NZ Taxonomy are (not in order of priority):

- Climate change mitigation
- Climate change A&R
- Sustainable use and protection of water resources and marine resources
- Protection and restoration of biodiversity and ecosystem
- Pollution prevention and control
- Transition to a circular economy

All the environmental objectives will include iwi/Māori understanding and knowledge related to each objective, initially prioritising climate change mitigation and A&R.

Indeed, the New Zealand Government and the TEG have emphasised that a defining feature of the NZ Taxonomy should be that the rights and knowledge of iwi/Māori are embedded into the design. Together, with the Australian Taxonomy and the framework of Canada, the NZ Taxonomy provides market leadership in ensuring that the rights and the interests of the Indigenous Peoples of the land are fully included in its development, demonstrating New Zealand's leadership in embedding cultural values and perspectives into its economy.

Globally, taxonomies prioritise climate change mitigation for two main reasons:

- **Measurability:** It's generally easier to determine and quantify substantial contributions that economic activities make to climate change mitigation efforts.
- **Alignment with established frameworks:** There are already well-established best practices, criteria, and thresholds in the area of climate change mitigation, providing a solid foundation for the work.

*The methodology in this paper focuses on the NZ Taxonomy's approach to determining overall activity categories' eligibility for inclusion in the Green and Transition categories in the context of climate change mitigation.*



## Ambition of the NZ Taxonomy

The NZ Taxonomy aims to be pragmatic, align with international standards and best practices, be relevant and practical domestically and secure wider industry and societal buy-in. In line with the ambition of the [Trans-Tasman Roadmap to 2035](#), there is clear direction to ensure that the NZ Taxonomy aligns closely with the Australian Taxonomy.

For the climate change mitigation environmental objective, NZ Taxonomy identifies activities that are either Paris-aligned or makes substantial movements toward the goals of the Paris Agreement, to keep temperature well below 2 degrees and pursue efforts to limit warming to 1.5 degrees. This ensures stability and longevity through political cycles.

The NZ Taxonomy is not meant to determine or prescribe the future economy mix, but to provide stepping stones to support New Zealand's transition to a Paris-aligned future. Taxonomies can only address emissions intensity but do not control activity volume nor set emissions caps. This limitation is expected to be addressed through complementary regulations because Paris alignment is only achievable if robust Government policies regulate the total level of non-zero emissions activities, such that overall emission outcomes are achieved.

It is also not the role of the NZ Taxonomy to determine the appropriate balance between emissions removals and gross emissions reductions – this remains a matter for broader Government climate strategy and/or policy.

In this context, in order to align the SC criteria with the goals of the Paris Agreement, the development of the NZ Taxonomy will draw both on global and domestic climate science scenarios, specifically with the consideration to the Climate Change Commission's High Technology and High Systems Change (HTHS) scenario. While the NZ Taxonomy is informed by global consensus science and pathways where they exist, the TEG acknowledges the need to primarily rely on pathways that are fit-for-purpose for the New Zealand context and will also consider other credible sector-specific pathways for particular activities.

## Activity inclusion and classification methodology

The NZ Taxonomy methodology provides an approach for defining overall activity categories eligible for inclusion (i.e., for the development of TSC developed) in the Green or Transition categories, while excluding those that fall outside of these parameters from TSC development.

With regard to Transition, the NZ Taxonomy has adopted a traffic light system similar to other taxonomies, in order to include transitioning activities based on a robust methodology which ensures that any Transition category or label is used to drive substantial step changes to emissions beyond business-as-usual.

The methodology was developed following a comprehensive review of global taxonomies and international best practices, including frameworks from the EU, Singapore, Canada, and Australia. The review of key global frameworks is outlined in Appendix 1.

In line with the [ITAG recommendations report](#), the definitions below identify overall activity categories eligible for categorisation as Green or Transition.

**Green:** These are activities that currently substantially contribute to one of the environmental objectives of the taxonomy. In the context of mitigation this means that the activities are aligned with the long-term temperature goal of the Paris Agreement.

**Transition:** These are activities that currently still operate at substantial emissions and have no low emissions alternative, but that are a necessary part of the economy and societal well-being at present and that are:

- Moving rapidly towards a green transition pathway; and/or
- In the short-term, encouraging substantial GHG emissions reductions within a specific sunset date (where appropriate); and
- Meet additional associated criteria (see following slides).

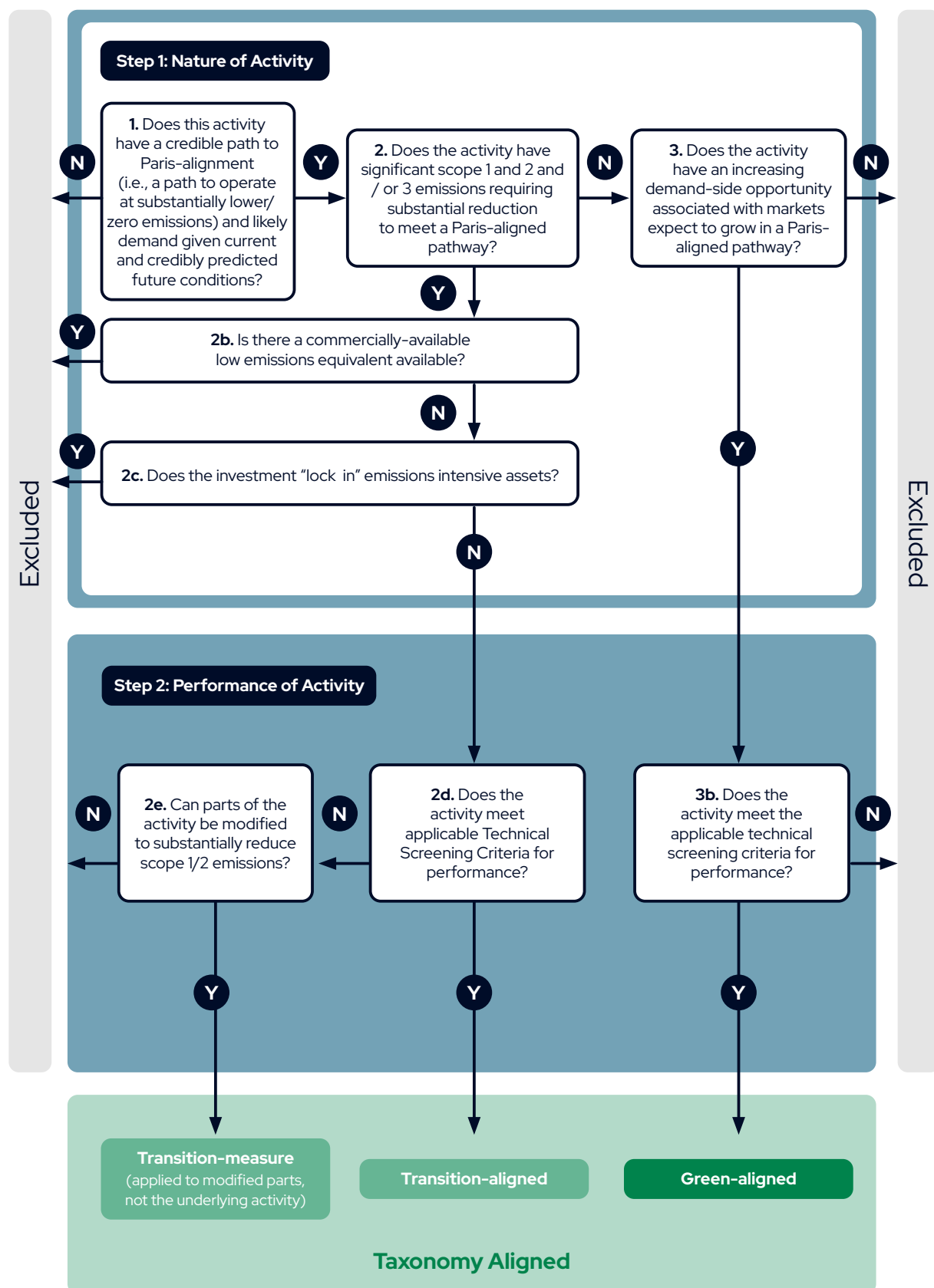
**Excluded:** These are activities that are not aligned with the mitigation objective of the NZ Taxonomy i.e. neither Green nor Transition.

While the overall activity category is eligible for Green or Transition classification, to achieve NZ Taxonomy alignment for any activity or measure, proponents must meet the relevant performance requirements outlined in the 'Aligning with the NZ Taxonomy' section.



## Decision tree for categorising economic activities

This section outlines the approach for determining overall activity categories that are eligible for inclusion in the Green or Transition classifications under the climate change mitigation objective.



This framework is structured in two key decision levels as outlined in the decision tree:

- Step 1: Nature of activity (including avoided emissions lock in)
- Step 2: Performance of activity

### Assessment is at the activity level

A precondition of the NZ Taxonomy is that it does not apply at the entity level. This is because entities may consist of a collection of numerous activities, some of which would be eligible or align with the NZ Taxonomy and others that might not – for instance, a utilities company may have a portfolio of renewable energy whilst also operating fossil fuel plants. Entities that also have operations outside of New Zealand would also be unable to use the NZ Taxonomy if categorisation was undertaken at the entity level.

This approach allows for a more granular and targeted analysis of sustainable practices within specific economic activities, while leaving room for future integration of entity-level assessments as the regulatory landscape evolves.

Assessment at the activity level is also consistent with benchmark taxonomies around the world, including Australia, the EU, Singapore, and many others.

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## Step 1: Consider nature of activity

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The nature of an activity refers to its inherent existing emissions intensity and its ability to maintain low-emissions, reduce or remove associated emissions for Scope 1, 2 and 3. This characteristic is intrinsic and unchanging over time, serving as the key determinant for inclusion in the Green or Transition categories and guiding the development of SC criteria and relevant levers to reduce emissions.

This level is critical for determining the Transition methodology. It focuses on whether the emissions intensity associated with an activity are already low or can be reduced or removed over time. In determining this, judgements must be made by the TEG where global frameworks and current science do not yet provide certainty.

### Climate change mitigation levers

There are three broad climate change mitigation levers that can be applied to activities, which are reflected in the NZ Taxonomy classifications:

**Excluded:** For activities with substantial Scope 1, 2 or 3 emissions where emissions cannot be reduced or decoupled from the activity and that have no substantial role in a Paris-aligned 2050 world. Credible, global climate-science scenarios determine that the only feasible pathway to reduce emissions is to reduce or 'phase down and/or out' these activities. An example of these activities is electricity generation using coal. More generally, activities that do not have at least a prospect of showing substantial movement towards lower-emissions activity levels in a Paris-aligned world are excluded from the NZ Taxonomy.

**Substantially reduce emissions intensity:** For activities with substantial Scope 1, 2 or 3 emissions that do not have low-emissions alternatives. These are hard-to-abate activities that must adopt the most effective low-emissions technologies available, striving to minimise emissions within current technological limits while maintaining their essential functions, thereby decoupling economic growth from emissions. As the NZ Taxonomy seeks to determine what is necessary in a 2050 Paris-aligned future, hard-to-abate sectors such as cement or steel production, will likely continue beyond 2050 but must evolve to reduce emissions. The emissions pathway will determine the activities that are likely to feature in a 2050 Paris-aligned future with some degree of value and expert judgement from the TEG and the sector-specific TAGs.

**Phase up:** Low-emissions alternatives that are replacing high-emissions activities. These are activities with demand side opportunity and should be rapidly phased up. An example of phase up is renewable energy generation.

The application of these levers depends on the low-emissions alternatives' nature. High-emitting activities that cannot be reduced across all scopes and that have substitutes are unlikely to be consistent with a Paris-aligned future whilst those without substitutes must improve their efficiency within.

When determining whether an activity can be categorised as Transition, the following risks or opportunities should also be assessed.

Demand-side risks	Supply-side risks	Demand-side opportunities
Activities that are expected to contract due to declining market conditions, which will affect the profitability and size of the market for the product. In a global transition scenario, demand shifts towards low Scope 3 emissions alternatives due to changing consumer behaviour, regulations, or technological advancements that will make certain technologies redundant. The timeline for demand decline varies based on the Paris-aligned pathway requirements.	Activities for which emissions costs have a substantial impact as reducing emissions is the most important driver in maintaining or acquiring market share of a specific product. It encompasses activities where emissions costs significantly impact market competitiveness. Emissions-intensive products become increasingly vulnerable to rising emissions costs, affecting production, supply costs, and long-term viability.	This category includes inherently Green activities with low or zero Scope 3 emissions and negligible Scope 1 and 2 emissions. These activities are expected to see increasing demand and falling production costs as the economy transitions to net-zero.
<b>Example:</b> Internal combustion engine vehicles face declining demand as consumers switch to electric vehicles.	<b>Example:</b> Manufacturing in hard-to-abate sectors like steel or cement, where emissions-intensive producers face substantial transition risks as low-emissions alternatives are developed.	<b>Example:</b> Solar and wind generation, batteries, and green hydrogen.
<b>Excluded from Taxonomy</b>	Require abatement as they lack low-emissions replacements.  <b>Substantially reduce emissions intensity</b>	Represent the low-emissions substitutes.  <b>Phase up</b>

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## Step 2: Performance of activity

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### ***The assessment of performance of the activity is not determined in this methodology but by the Technical Screening Criteria (TSC)***

This level assesses an activity's performance and determines if it meets the criteria to be classified as NZ Taxonomy aligned, under either the Green or Transition classifications. Performance is dynamic and can evolve over time. For instance, an activity's environmental impact may improve through the implementation of decarbonisation technologies, resulting in reduced emissions.

This performance evaluation is not part of the methodology itself. Instead, the activity's performance is considered by the TSC. It is through the TSC that definitions of what represents 'substantial' contributions to emissions reduction for each activity and sector are actualised.

### **Transition measures**

When assessing the performance of an activity in some sectors of the NZ Taxonomy, investment in Transition measures may be classified as NZ Taxonomy aligned even if the broader activity is not Green or Transition itself. For example, in agriculture, a whole activity might not meet Green or Transition criteria within the Taxonomy, but individual investments within the activity could, such as adopting electric farm vehicles, reflecting their contribution to emissions reduction.

#### **Defining activities and measures**

The NZ Taxonomy includes both activities and measures.

**Activities** are economic activities, such as ruminant livestock farming, perennial and non-perennial cropping, or forest establishment.

**Measures** are practices, actions or investments that can be applied to an activity, but which don't change the underlying economic activity. For example, renewable energy generation and storage is a measure which can be applied to ruminant livestock farming.

### **Key points about Transition measures**

- Transition measures include eligible technologies, processes, practices, materials and/or services that improve the emissions performance of an activity, bringing it closer to alignment with Green performance thresholds. These measures are included where components of the activity can be partially or fully substituted to significantly reduce Scope 1 and 2 emissions. They do not make the whole activity Green.
- The purpose of Transition measures is to ensure there are opportunities for entities to access finance for those measures to reduce emissions from existing long-life activities (i.e., assets and facilities) and move towards the Paris ambition.
- Where whole existing activities do not meet the Green criteria, the entity may still be eligible to use Transition measures to lower the activity's emissions.
- Investments in Transition measures can be reported as taxonomy aligned capital expenditures (CapEx) or operational expenditures (OpEx), **but not as taxonomy aligned revenue.**
- The SC criteria will determine whether a Transition measure is time-bound, meaning they are only eligible until a date specified in the criteria.
- Additionally, certain Transition measures might include a threshold, which stipulates the scale at which a Transition measure must be applied to be considered taxonomy aligned.

The NZ Taxonomy defines Transition-eligible activities as those that:

Principles for determining eligibility for the Transition category	Overview
Encourage substantial movement to Paris alignment	Fundamental to the NZ Taxonomy is alignment with the Paris Agreement striving for as close as possible to 1.5°C. Categorisation for Transition should encourage substantial movements towards a Paris-aligned pathway for a defined and limited list of sectors/activities that are significant and relevant to Aotearoa New Zealand. For all activities with a continued role in a low-emissions economy, financial flows should drive step changes rather than incremental improvements.
Have a continued role in a Paris-aligned low-emissions economy	Activities that are eligible for the Transition category should have a continued role in a low-emissions economy as their Scope 1, 2 and 3 emissions can be reduced.
Does not have an existing commercially-available low-emissions alternative	This excludes activities where there are low-emissions substitutes already available and economically viable at scale.
Have a sunset (cut-off) date, where appropriate	<p>Where feasible, activities eligible for the Transition category should have a sunset date. At the sunset date, the Transition category will cease to exist so that the activity is either aligned with the Paris pathway (Green) or it is excluded from the NZ Taxonomy. This does not necessarily mean that an activity needs to be operating at net-zero by the sunset date, but rather that is aligned with a Paris trajectory.</p> <p>However, when determining a cut-off date, some degree of pragmatic value judgment might need to be applied in order to account for variables other than science, such as the impact of an activity on the overall wellness of society or the expected rate of adoption of a decarbonising technology.</p>
Do not lock in high-emissions assets	Activities eligible for the Transition category should be used only when climate change mitigation is in place to avoid locking in high-emissions assets or technologies, for example establishing or retrofitting existing assets with only marginally improved practices when there are more impactful options available would not qualify.
Can reduce emissions across Scope 1, 2 & 3	Whilst the activity boundaries and the design of the SC criteria only consider GHG emissions for Scope 1 and 2, an activity must meet additional conditions to be eligible for inclusion in the Green or Transition categories – its Scope 3 emissions must also be reduced. Scope 3 emissions are difficult to measure and account for because they might reside outside the control of the activity owner, typically in value chains. Therefore, the first step in the Transition methodology (please see Decision Tree on page 9) considers the nature of the activity and screens out those for which Scope 3 emissions cannot be reduced, or in other words, activities that would not feature in a Paris-aligned 2050 future e.g., the burning of coal for electricity generation. Scope 3 emissions can be indirectly addressed in the NZ Taxonomy by providing SC criteria for related activities within the value chain of a given activity. For instance, in the Built Environment, Scope 3 emissions can be tackled by designing SC criteria for construction materials (building components such as low-carbon steel, glass, cement) or for low-emissions transport.

The NZ Taxonomy will exclude, in its classification, activities that do not substantially contribute to a low-emissions, Paris-aligned future. Under the climate change mitigation environmental objective, the purpose of the NZ Taxonomy is to identify opportunities (CapEx, OpEx, revenue) to direct capital to activities that are either Paris-aligned or making substantial movement towards Paris alignment.



## Why Transition is included in the NZ Taxonomy

Financial institutions require credible and consistent criteria as a tool to progressively steer economic activities towards taxonomy alignment and to safeguard investment against the risk of greenwashing. While defining Green remains a priority, the Transition classification is increasingly recognised by global finance frameworks as critical for climate change mitigation because it supports emissions reduction in sectors of the economy that are needed in a net-zero future but that are currently emissions-intensive and, therefore, require investment.

Many New Zealand financial institutions are already making internal assessments of activities as either Transitional or Green. A formal Transition category aligns with and standardises these with existing international best practices, encouraging substantial movements towards a 1.5-degree pathway for a defined and limited list of sectors/activities that are significant and relevant to New Zealand.

Across major jurisdictions, Green bonds and Transition bonds are issued to finance both established low-emissions solutions, and projects that help higher-emitting sectors reduce emissions; this reflects a growing consensus that financing the transition is as essential as financing already “Green” activities, and that both can make a substantial contribution towards the stated environmental objective.

Internationally, countries such as Australia and Singapore have included a Transition category in their taxonomies. The EU does not explicitly label activities as Transition, but it employs a best-in-class approach for activities where low-emissions alternatives are not widely available. We believe that New Zealand ought to remain aligned and therefore, New Zealand’s inclusion of a Transition category in its taxonomy is crucial to effectively mobilise capital towards initiatives that substantially reduce emissions, particularly in hard-to-abate sectors.

Both the Green and Transition classifications are NZ Taxonomy aligned.

# Appendices

## Appendix 1: Lessons from other taxonomies

Various taxonomies around the world have already integrated Transition categories, sectors, and activities, offering valuable insights for New Zealand in defining Green and Transition. Learnings from other taxonomies show that there are common challenges faced in directing capital toward a moving target. Transition is inherently a process of change over time, while taxonomy thresholds are static at a given point in time, which does not easily foster or reward change. To address this, taxonomy developers have implemented mechanisms to support Transition activities and promote progress over time, including regular updates of taxonomy criteria to reflect increasing climate ambitions, evolving regulations, new technologies, and other factors.

### European Union

In the EU Taxonomy, 25 activities are classified as Transitional. These activities are treated similarly to Green activities, with a single threshold for classification as sustainable. However, the definition of 'substantial contribution' for these activities differs from that of other activities, making it easier to achieve the threshold. These thresholds are designed to gradually tighten over time to ensure continued progress.

A key takeaway from the EU's approach is that, although there is a ratcheting mechanism in place, there is no clear guidance on how, if, and when thresholds will be adjusted. The EU Taxonomy is reviewed every three years, but this lack of clarity makes it challenging to demonstrate transition over time. Furthermore, while the lower bar for substantial contribution is useful for Transitional activities, it does not sufficiently encourage or reward the improvement of poorly performing sectors.

### Singapore and ASEAN (traffic light approach)

The traffic light approach used by Singapore and ASEAN addresses some shortcomings of the EU model, particularly the lack of support for poor performers within sectors. This system classifies activities into three categories:

- **Green:** Activities already Paris-aligned.
- **Amber:** Activities and measures facilitating significant movement towards sustainability (Transition).
- **Red:** Ineligible activities.

Developing the Amber criteria posed several challenges, and several lessons were learned in the process:

1. Transition is not indefinite: Transition must have a clear end goal. Activities should follow a predetermined net-zero pathway with a specific sunset date. This sunset date was a critical element in defining the Amber criteria.
2. Avoiding poor-performing new activities: New activities were generally not eligible for Amber classification, to avoid locking in assets with poor sustainability performance. Amber criteria were intended for existing assets that need to decarbonise, though they may not yet meet the Green criteria.
3. Amber criteria may not apply to all activities: The Amber category may not be applicable to all activities, as:
  - Some technologies are already in line with the Paris ambition and meet Green thresholds.
  - New assets must meet Green thresholds.
  - Some activities may be incompatible with a net-zero future and belong in the Red category.
4. Red and Amber boundaries can be arbitrary: Defining clear boundaries between Red and Amber categories requires reliable data on performance thresholds. Without sufficient data, thresholds may be arbitrary and unhelpful in driving progress in underperforming sectors.

5. Technology whitelists can be more effective than thresholds: In hard-to-abate sectors, where no single technology can achieve the desired emissions reductions, whitelisting specific technologies or identifying eligible measures can be more effective than relying on thresholds. Multiple measures working together can drive significant emissions reductions.
6. Transition involves progress, not static thresholds: An activity must demonstrate continuous improvement to be classified as Amber, moving towards Green over time.

## Australia

Australia uses a Green and Transition classification, with practices that fell outside of these categories excluded from the Australian Taxonomy, rather than detail Red or non-eligible practices or activities.

Australia established three types of Green classifications and two types of Transition classifications.

### Green Classifications

#### Low or zero emissions substitutes

- Activities that can directly reduce emissions through their substitution for emissions-intensive alternatives can be classified as Green.
- To obtain Green classification, the activity must meet the corresponding performance requirements set out in the SC criteria.
- If the activity does not meet the criteria, it is not eligible under the Australian Taxonomy. This is to ensure that new low-emissions activities include the best performing technologies.
- Performance requirements set through SC criteria are generally based on emissions intensity thresholds that are Paris-aligned.
- An example is renewable electricity generation activities, which provide significant emissions reductions relative to fossil-based alternatives. To be considered Green, these activities must meet an emissions intensity threshold of 100g CO<sub>2</sub>e/KWh before 2030, after which the thresholds decline.

#### High performing activities with no low-emissions alternative

- Activities that do not have a low-emissions alternative that produces the same output may be eligible to be classified as Green in the Australian Taxonomy.
- However, the activity must have a stable or growing demand in a post-net-zero economy and meet performance requirements specified in the screening criteria to be classified as Green.
- Examples of such activities include the manufacture of cement and steel, and air transport.
- Performance requirements are generally set through emissions intensity thresholds consistent with a Paris alignment, and may include additional requirements to mitigate the risks of emissions lock-in.
- If the activity does not meet the Green criteria, decarbonisation measures will be available in instances where components of the activity can be partially or fully substituted to significantly reduce Scope 1 and 2 emissions.

#### Enabling activities

- Where an activity directly enables the decarbonisation of another activity, it may be eligible as Green under the Australian Taxonomy.
- Consistent with the International Capital Market Association's (2024) guidance on Green enabling projects, Green enabling activities should not lead to locking-in high GHG emitting activities relative to other technologically feasible and/or commercially viable solutions.
- Examples include the manufacture of zero-emissions technologies (e.g., electrolyzers, solar panels), and infrastructure that supports the growth of zero and low-emissions transport (e.g., electric vehicle charging infrastructure) or encourages mode shifting (e.g., bike paths).



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## Appendix 2: NZ Taxonomy principles

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### **Credibility – Mana.**

Applying an evidence-based approach together with international best practices and standards to attract and direct the flow of international capital towards sustainable solutions. The NZ Taxonomy needs to be transparent in its governance structure and content, especially in how the TSC are designed to give effect to the NZ Taxonomy's purpose and reflect the needs not only of the finance industry but also of investors (including KiwiSaver and retail investors) and civil society. Strong safeguards need to be in place to ensure political and industry influence is limited.

### **Usability – Whakamahi.**

The NZ Taxonomy should be easy to use and fit-for-purpose. The TSC need to be easily understood by a spectrum of different end users and promote data and metrics that are easy to report against.

### **Interoperability – Tuhono.**

As much as possible, the NZ Taxonomy should align with international standards and best practices for the design of its structure, the components of the SC, DNSH and MSS criteria. It should promote interoperability with Australia (Trans-Tasman) as well as with New Zealand's main trading partners (EU, UK, China) and other benchmark taxonomies in the Asia Pacific Region (APAC) such as Singapore.

### **Culture – Ahurea.**

Human society depends on nature. We need to establish and learn from cultures in which nature is not seen simply in monetary terms. Indigenous cultures and rights are a core principle underlying the entire NZ Taxonomy.

Iwi and Māori leaders will be represented in all governance tiers, and indigenous views of nature will be integrated in the design of the TSC.

### **Prioritisation – Whakarite.**

Prioritisation should determine both the selection of environmental objectives the NZ Taxonomy should focus on at first and the sequencing of the design of the TSC, based on which sectors of the economy are a priority for the NZ Taxonomy.

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## Appendix 3: TEG members

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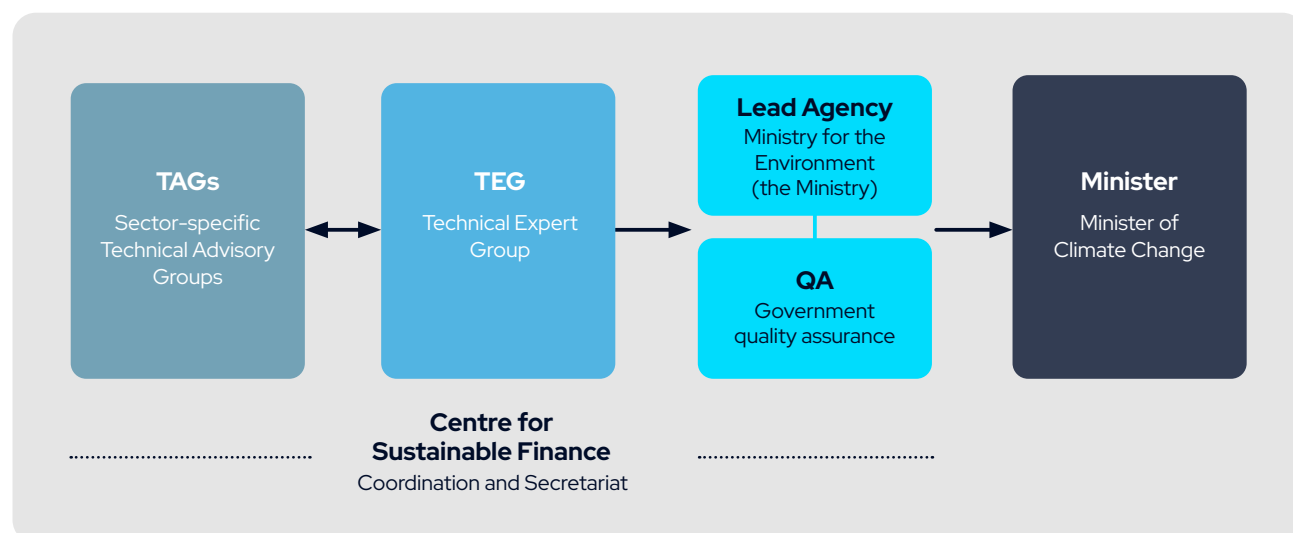
### **TEG co-Chairs**

1. **Andy Reisinger**, Independent Climate Change Expert
2. **Pip Best**, Partner – Climate Change & Sustainability Services, EY Oceania

### **TEG members**

3. **Adam Coxhead**, Head of Sustainable Finance, Bank of New Zealand
4. **Amelia Sharman**, Director – Sustainability Reporting, External Reporting Board (XRB) *[from July 2025]*
5. **Caroline Poujol**, Director – Climate Transition (NZ), ANZ
6. **David Hall**, Co-Founder and Executive Director, Toha Network
7. **David Woods**, Independent
8. **Feng Hu**, Founder and Director, silkroad.earth
9. **Fonteyn Moses-Te Kani**, Pou Tiaki – Director Māori Strategy & Indigenous Inclusion, Westpac New Zealand
10. **Greg Munford**, Senior Investment Strategist – Sustainable Investment, New Zealand Superannuation Fund
11. **James Paterson**, Head of Sustainable Finance, ASB
12. **Jeremie Madamour**, Principal Advisor – Climate Change & Sustainability Reporting, External Reporting Board (XRB) *[until June 2025]*
13. **Joanna Silver**, Executive Director and Head of Economic Development, Westpac New Zealand
14. **Jono Broome**, Associate Director – Client Advisory APAC, Morningstar Sustainability
15. **Jorge Waayman**, Manager – ESG Research, Harbour Asset Management
16. **Julia Langley**, Managing Director – Switzerland & New Zealand, Green Wave Advisory
17. **June McCabe**, Independent Director; Pou Tahua Representative, National Iwi Chairs Forum (NICF)
18. **Sean Fullan**, Resilience & Recovery Manager, Insurance Council of New Zealand (ICNZ)
19. **Stefan Gray**, Manager – Strategic Climate Initiatives, Reserve Bank of New Zealand (RBNZ)

## Appendix 4: NZ Taxonomy governance structure



### TAG

*Provides technical input*

- Technical/sector experts from finance, industry, academia, civil society, iwi & Māori
- Provides technical input into taxonomy definitions for TEG endorsement
- Feeds back on TEG technical methodologies for TEG consideration and endorsement

### TEG

*Oversees taxonomy development for usability and interoperability*

- Expert representation from across the Government, the finance sector, industry, academia, civil society and te ao Māori
- Responsible for the technical taxonomy documents
- Provides endorsement of all technical taxonomy methodologies and definitions before they are provided to the Ministry and Government QA function
- Ensures technical components align with Ministerial direction on taxonomy design (principles, objectives, priorities, etc.)
- Provides strategic direction, reviews, inputs and provides final endorsement of outputs from the TAGs

### Government

*Provides oversight and strategic direction*

- Lead agency, the Ministry
  - Oversees taxonomy development
  - Advises the Minister on strategic direction and taxonomy use cases
  - Responsible for oversight of the strategic partnership with CSF
- Government quality assurance (QA) function
  - Council of Financial Regulators: Provides regulatory quality assurance on the process
  - Other agencies: Provide insights on strategic alignment across broader policy objectives

### Minister

*Sets strategic direction for sustainable finance system*

- Receives final advice from the Ministry and independent advisory functions
- Sets strategic direction for the sustainable finance system, including how taxonomy will be used and alignment with Australia
- Endorses the technical definitions for these uses and provides legitimacy to the taxonomy



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