



Centre for Sustainable Finance submission on proposed updates to the EU Taxonomy

Summary:

The EU Taxonomy is a cornerstone of global sustainable finance architecture. Its continued evolution – particularly efforts to simplify, clarify, and align with existing industry standards/regulatory frameworks – will be critical to ensuring usability and effectiveness.

Usability, interoperability, and credibility are key guiding principles in the development of the Aotearoa New Zealand Sustainable Finance Taxonomy (NZ Taxonomy)'s sectoral criteria. Alignment with a strong and stable EU framework is therefore essential to reducing complexity, enabling capital flows, and supporting credible domestic climate change mitigation and adaptation and resilience (A&R) efforts.

We support the efforts in the proposed revisions to strike a balance between the rigour and the usability of the framework, particularly in refinement of the DNSH framework. We note greater alignment between the proposed revisions and the New Zealand approach to DNSH which seeks to leveraging existing frameworks in order to keep environmental risks front of mind, without creating lengthy or costly compliance for proponents.

We encourage the EU to continue refine the framework, informed by emerging standards, technology, and user feedback, to enhance usability, credibility, and relevance.

Thank-you for the opportunity to provide this submission.

Background: NZ Taxonomy development

The NZ Taxonomy is a framework to enable market participants to mobilise and direct capital flows towards: Building a low-emissions, Paris-aligned future; restoring nature; and upholding the rights and interests of Indigenous Peoples of the land.

The New Zealand Minister of Climate Change directed work to begin on the NZ Taxonomy's climate change mitigation and A&R criteria, starting with Agriculture & Forestry in November 2024, followed by Energy in October 2025, and Construction & Buildings in February 2026. The inclusion of climate change A&R criteria reflect the importance of resilience for NZ businesses and provides further options for NZ Taxonomy alignment. Version 1 Agriculture and Forestry Version criteria for this environmental objective are published in market.

The NZ Taxonomy is being developed through a partnership between the New Zealand Government and [The Centre for Sustainable Finance: Toitū Tahua \(CSF\)](#), with input from technical experts through a robust governance structure ([Appendix 1](#)), targeted stakeholder engagement, and public consultation – similar in approach to the EU.

By providing clear, credible and consistent criteria for identifying and classifying environmentally sustainable activities, the NZ Taxonomy is intended 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 that can enable New Zealand's sustainable future.

It is also intended to support New Zealand businesses in attracting capital, demonstrating sustainability performance and alignment with global customer expectations, and enabling efficient access to global markets.



Importance of interoperability and use of international benchmarks for New Zealand

As a small, optional market competing for global capital, it is important that the NZ Taxonomy aligns to international frameworks, and provides recognisable, credible and relevant definitions that can be used by investors and capital providers who want to make investments into the global transition to a low-emissions economy.

With over 50 jurisdictions developing sustainable finance taxonomies, interoperability is increasingly important. As directed by the New Zealand Minister of Climate Change, New Zealand's approach is to closely align with the Australian Taxonomy, while adapting international definitions to reflect domestic legal, policy, and market conditions.

The Australian Sustainable Finance Institute (ASFI), as secretariat for the Australian Taxonomy, is actively engaged in international "common ground" taxonomy discussions and promotes interoperability/alignment with the EU Taxonomy. The EU framework also serves as both a key reference point and benchmark taxonomy for New Zealand, particularly in areas such as climate change A&R, where Australian criteria are still under development.

A flowchart illustrating the NZ Taxonomy development process, which applies across all components and sectors under development, is provided in [Appendix 2](#).

We strongly emphasise the importance of international alignment and interoperability. Divergence between taxonomies increases compliance costs, creates confusion for market participants, and risks fragmenting sustainable finance markets.

The EU Taxonomy plays a leading role in shaping global approaches. Continued efforts to:

- improve clarity;
- simplify criteria; and
- reduce burden of proof (including through alignment with existing legislation and standards where possible)

are particularly valuable, as they enhance the ability of other jurisdictions, including New Zealand, to adopt or adapt elements of the framework efficiently and effectively.

We support the ongoing use of the EU Taxonomy as a core reference point ("benchmark taxonomy") in New Zealand's criteria development process.

General support for simplification and targeted clarifications

CSF broadly supports the proposed simplification of criteria particularly where it improves usability for market participants. We also support targeted clarifications that reduce ambiguity in activity descriptions/methodologies.

Usability is critical to encourage uptake and to ensure that efforts made by taxonomy users are properly recognised.

Simplification is most effective where it:

- reduces unnecessary complexity and duplication; and
- lowers compliance and reporting costs.

At the same time, it is important that simplification does not undermine the integrity or ambition of the taxonomy project.

We consider that the proposed changes generally strike an appropriate balance between usability and scientific rigour.

Importantly, CSF recognises the need for a clear distinction between Substantial Contribution (SC) and Do No Significant Harm (DNSH) criteria:



- DNSH functions as a risk management tool, ensuring that activities aligned with the taxonomy do not result in unintended or adverse environmental impacts.
- While SC criteria are designed to achieve positive environmental outcomes, DNSH criteria are not intended to deliver net-positive impacts – their role is to prevent harm.

In the New Zealand context, the intention is for generic DNSH requirements to be based on applicable local laws and regulations, with additional requirements applied to specific high-risk activities or projects.

The NZ Taxonomy Technical Expert Group (TEG) unanimously agreed **that DNSH is primarily about establishing a process that keeps environmental risks front of mind and supports behavioural change, rather than creating a lengthy or costly compliance exercise for proponents. It is therefore important to leverage existing frameworks that market participants already use for compliance; otherwise, uptake will be limited and the effectiveness of the framework reduced.**

CSF notes that the EU's approach to simplified and harmonised DNSH criteria – particularly the explicit alignment with existing legislative frameworks – represents a positive step toward greater consistency and interoperability. This direction is strongly aligned with New Zealand's own approach and supports improved cross-border comparability.

Given that New Zealand is taking a phased approach to implementing DNSH and Minimum Social Safeguards (MSS) at this initial stage (see [Appendix 3](#)), some critical safeguards are currently incorporated within the SC criteria where necessary.

Specific feedback on proposed changes (sectors currently developed or under development for New Zealand)

Forestry

- Forestry is a key sector for New Zealand, both economically and in terms of emissions mitigation.
- We support:
 - improved consistency with regulatory frameworks;
 - simplified requirements for forest management and afforestation plans; and
 - streamlined DNSH criteria.
- These changes are broadly consistent with New Zealand's approach of reducing administrative burden while maintaining environmental integrity.

Reforestation and wetlands restoration

- These activities are highly relevant to New Zealand's climate and biodiversity objectives, and we support clearer activity definitions and improved monitoring/auditing framework.

Energy generation and supply (excluding upstream production and downstream use)

- New Zealand's energy sector criteria are currently under development and are expected to be released for public consultation in June.
- Overall, we commend the proposed updates, as they improve cross-sector consistency and enhance practical applicability.
- We support:
 - more consistent criteria across energy production, storage, and distribution; and
 - simplified DNSH criteria aligned with applicable legislation, particularly for hydropower.
- We note the proposed removal of the lifecycle assessment (LCA) requirement and the 100gCO₂e/kWh threshold for geothermal. While we recognise the policy intent to reduce burden of proof where technologies are clearly low-emissions, we note that in the New Zealand context, a subset of geothermal facilities may not consistently meet this threshold, with the highest-emitting plant reaching approximately 311gCO₂e/kWh (operational emissions; meaning lifecycle emissions could be higher). In the absence of a quantitative safeguard (or fallback criterion), there is a risk that the taxonomy's integrity and classification consistency could be weakened.



Construction & Buildings

- We note the proposed updates to this sector. New Zealand is still in the early stages of developing criteria for this sector. Further technical review is required to assess their implications for the New Zealand context, including overall levels of ambition and feasibility of implementation. We will provide more detailed feedback as this work progresses.

Conclusion

In conclusion, the EU Taxonomy remains a cornerstone of global sustainable finance architecture. Its continued evolution – particularly efforts to simplify, clarify, and align with existing industry standards/regulatory frameworks – will be critical to ensuring usability and effectiveness.

Usability, interoperability, and credibility are key guiding principles in the development of the NZ Taxonomy's sectoral criteria. Alignment with a strong and stable EU framework is therefore essential to reducing complexity, enabling capital flows, and supporting credible domestic climate change mitigation and A&R efforts.

We encourage the EU to continue strengthening and harmonising the framework, informed by emerging standards, technology, and user feedback, to enhance usability, credibility, and relevance.

Thank-you for the opportunity to provide this submission.



About CSF

The Centre for Sustainable Finance: Toitū Tahua (CSF) is a charitable trust that works in partnership with the New Zealand Government and leading financial institutions to direct and accelerate finance towards sustainability and resilience outcomes across key sectors of the New Zealand economy.

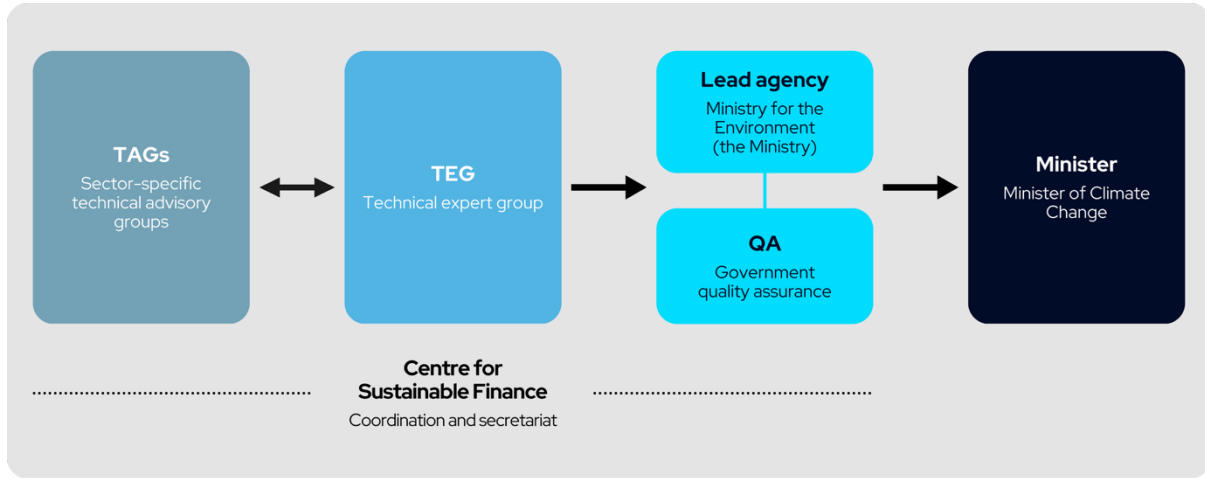
In the context of the NZ Taxonomy, CSF serves as the secretariat and coordination function. This includes managing and supporting sector-specific Technical Advisory Groups (TAGs) and the Technical Expert Group (TEG).

CSF also leads wider stakeholder engagement on the technical screening criteria, including public consultation(s), and is ultimately responsible for the delivery of the NZ Taxonomy to the lead agency, the Ministry for the Environment (MfE).



Appendices

Appendix 1: NZ Taxonomy development phase 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 quality assurance 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

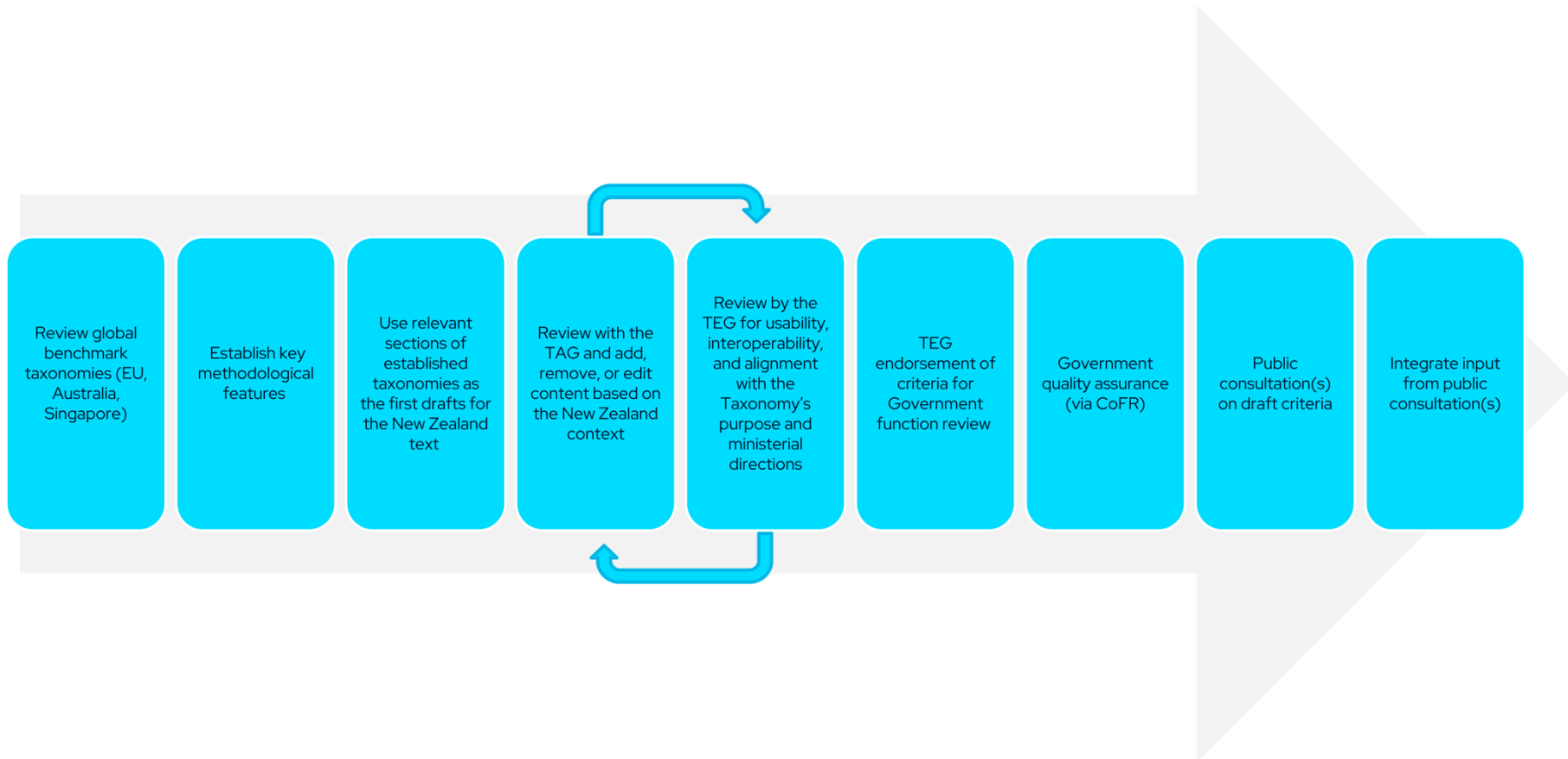
- Lead agency, the Ministry
 - Oversees taxonomy development
 - Advises the Minister on strategic direction and taxonomy use cases
 - Responsible for oversight of the strategic partnership with CSF
- Government quality assurance (QA) function
 - Council of Financial Regulators: Provides regulatory quality 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

Appendix 2: NZ Taxonomy criteria development process





Appendix 3: NZ Taxonomy criteria scope and use

Objectives	Criteria	Purpose	Format	Sector application	Requirements for NZ Taxonomy alignment
Environmental objective – climate change mitigation	SC criteria	Detail the performance requirements that an activity/measure must meet to demonstrate that it makes a substantial contribution to the climate change mitigation environmental objective	A list of activities/measures that are classified as Green or Transition, with associated performance criteria, as well as any eligible practices, monitoring requirements, and exclusions.	Sector-specific	Proponents must satisfy one set of SC criteria: Either the climate change mitigation SC criteria (this row) or the climate change A&R SC criteria (below).
Environmental objective – climate change A&R	SC criteria – process-based approach	Detail the process that must be followed when identifying, designing and undertaking an activity, to demonstrate that it makes a substantial contribution to the climate change A&R environmental objective.	Guidance on the process, including minimum requirements, for users to identify and design activities that increase adaptive capacity or resilience. All activities that substantially contribute to climate change A&R are classified as Green.	Any sector	Proponents must satisfy one set of SC criteria: Either the process-based approach OR the sector-specific whitelist, or the climate change mitigation SC criteria (above).
	SC criteria – sector-specific whitelist	Pre-approved low-risk measures that are deemed to achieve a substantial contribution to the climate change A&R environmental objective.	List of pre-approved measures and applications.	Sector-specific	
All six environmental objective	DNSH criteria – generic	Ensure that the activity making substantial contribution to one environmental objective does not cause significant negative impacts on other environmental objectives. Address broad protections for each objective.	List of minimum requirements per environmental objective.	Any sector	Proponents may align fully, align partially or not align. Proponents must disclose the levels and parts of the NZ Taxonomy to which they are aligning. Proponents are encouraged to give consideration to alignment, and to partially or fully align if possible.
	DNSH criteria – activity-specific	Ensure that the activity making substantial contribution to one environmental objective does not cause significant negative impacts on other environmental objectives. Addresses risks specific to the activity.	List of detailed requirements related to the performance of a specific activity.	Sector-specific	
Social objectives	MSS	Ensure that entities meet minimum standards for social responsibility.	List of minimum requirements for an entity seeking NZ Taxonomy alignment.	Any sector	