

Statement

EU Taxonomy Regulation should recognise automotive suppliers' contribution to climate-neutral mobility

Brussels, 17 February 2023

To ensure a continued dialogue with stakeholders from the public and private sector on the implementation of the EU Taxonomy Regulation, the European Commission launched a [Platform on Sustainable Finance](#) that has been active since 2020. In October 2022, the platform opened applications for the selection of members for the new two-year mandate, and the final composition was announced on 8 February.

Automotive suppliers in the EU, associated in CLEPA, welcome the Commission's initiative to have established such platform with the objective of ensuring an effective dialogue between policymakers and industry representatives. However, the lack of representation of the automotive supply industry in this platform raises concerns.

European automotive suppliers actively call upon the European Commission to prioritise the restoration of the level playing field concerning access to capital for manufacturers and suppliers of low-emission technologies. The interpretation notice published in October can be interpreted in different ways. Uncertainty on the status of low and zero tailpipe emission technologies could lead to underdeveloped supply chains for low-emission mobility and highly heterogeneous reporting to financial markets. CLEPA maintains its interpretation of the application of taxonomy rules for low-emission vehicle manufacturing, as set out in its sector paper [published early last year](#).

The Climate Change Delegated Act recognises the manufacturing of low-emission vehicles as an activity that could contribute to climate change mitigation (taxonomy eligibility) and formulates the conditions under which vehicle manufacturing does (taxonomy alignment). The manufacturing of components assembled into the vehicle is an intrinsic element of the vehicle manufacturing process due to the close cooperation between vehicle manufacturers and suppliers and the involvement of third-party verification. CLEPA experts stand ready to advise the Sustainable Finance Platform and would welcome any opportunity to exchange with the platform.

Complexities in the definition

The Commission published on 6 October 2022 an interpretation notice in the Official Journal of the European Union¹ recognising that “*components that car manufacturers purchase to manufacture low-carbon cars are eligible.*” The rest of the section on the automotive supply chain, however, seems to characterise the supply chain as a process of intermediate and disconnected production steps executed by suppliers and manufacturers instead of a process where vehicles are designed and manufactured in a process of close co-creation. This has created significant confusion in the market on

¹ Official Journal of the European Union, 6 October 2022: [Commission Notice on the interpretation of certain legal provisions of the Disclosures Delegated Act under Article 8 of EU Taxonomy Regulation on the reporting of eligible economic activities and assets](#)

how to interpret taxonomy. The interpretation notice continues by stating that *“the manufacturing of specific components for cars is not by default eligible under the activity ‘manufacture of low carbon technologies for transport.’* The notice suggests that components manufacturing could be eligible under 3.2, 3.4 and 3.6. the absence of a reference to 3.3 in the paragraph on components could be read as a suggestion that components do not fall under this category. However, other parts of the notice rightly state that the taxonomy does not refer to only one specific economic activity, but rather to categories of economic activities. It would therefore be inconsistent to treat the assembly of a vehicle differently than the manufacturing of its components. Furthermore, this would constitute a breach of article 19² of the underlying taxonomy regulation, which provides that activities within sectors should not be treated unequally if they contribute equally to environmental objectives. Unfortunately, in its current form, the interpretation notice results in unclarity in the market and growing divergence in how market actors apply the taxonomy screening criteria across the automotive industry.

CLEPA maintains that the notice does not explicitly exclude component manufacturing from eligibility under 3.3. CLEPA considers that the following statement in the interpretation notice supports that view *“The reference to NACE sectors in the Climate Delegated Act is only indicative and not necessarily exhaustive. Therefore, an economic activity could match the description of an activity and the technical screening criteria laid out the Climate Delegated Act (Annexes I and II thereof) even if the NACE sector of the company is not listed in the relevant section of the Climate Delegated Act.”*

Automotive suppliers can verify compliance with the specific criteria under 3.3 and therefore match the activity’s description and criteria, as is already being done under auditors’ assurance for financial reporting purposes. Existing tools and third-party verification procedures to record compliance with type approval, material regulations and vehicle manufacturer production requirements can be used to verify compliance with screening and do no significant harm criteria. CLEPA, therefore, calls upon the Sustainable Finance Platform and European Commission to ensure the interpretation notice of 6 October is amended. CLEPA recommends adding a sentence stating *“Similar to the manufacturer of the car, the manufacturer of the component needs to substantiate that revenues are related to the sale of components dedicated for the assembly into a low-emission car that meets the screening and do no significant harm criteria.”*

CLEPA welcomes the Commission’s intention to amend the Climate Change Delegated Act to create more clarity. A draft notice published on 19 December rightly states that *“the treatment of key components for manufacturing activities, for example in the low carbon transport sector, covered by the Climate Delegated Act will be addressed in future revisions of the delegated act.”* A more coherent description of the activity of low-emission vehicle manufacturing would better reflect the reality of automotive manufacturing and mitigate confusion among market parties about the interpretation of the taxonomy. An amendment of the delegated act could also address enabling activities upstream in the supply chain, which have a degree of separation but are indirectly linked to the assembly of the final product and, therefore, may need dedicated screening criteria. As investors are already basing investment decisions on taxonomy classifications, an amendment of the interpretation notice should guarantee that equally contributing activities within the automotive sectors are equally valued in the meantime, if they can substantiate compliance with screening and “do no significant harm”-criteria.

² Article 19 of Regulation (EU) 2020/852: “ cover all relevant economic activities within a specific sector and ensure that those activities are treated equally if they contribute equally towards the environmental objectives set out in Article 9 of this Regulation, to avoid distorting competition in the market”

Concrete text proposal for an amendment of the Commission interpretation notice from 6 October 2022

Recommendations to delete are marked “strikethrough”, amendment proposals are marked “bold”.

8. How far should undertakings assess and report Taxonomy-eligible activities in their value chain, both upstream and downstream?

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For reporting turnover, assets and processes in the value chain of an activity are only eligible if they are explicitly included in the activity description. For example, if the description only refers to manufacturing of final products, intermediary activities in the value chain are not automatically eligible. Accordingly, manufacturing specific car and vehicle components is not automatically eligible under the section ‘manufacture of low carbon technologies for transport’. From a supplier’s perspective, this means that the activity of a company that is a supplier to a Taxonomy-eligible activity is not by definition Taxonomy-eligible and the manufacturing of specific components for cars is not by default eligible under the activity ‘manufacture of low carbon technologies for transport’. This is because the EU Taxonomy does not take a blanket approach for upstream activities, **nor can it treat certain activities (car assembly) within a sector unequally compared to others in case of an equal contribution to environmental objectives**. Instead, it sets out specific criteria for each included activity, including the relevant ‘do no significant harm’ criteria. **Similar to the manufacturer of the car, the manufacturer of the component, therefore, needs to substantiate that revenues are related to the sale of components dedicated to the assembly into a low-emission car that meets the screening and “do no significant harm”-criteria.**

Other key components are spelled out in separate Sections, such as for batteries or hydrogen (in Sections 3.2 and 3.4) as eligible. Furthermore, the manufacture of components can qualify under the section ‘manufacture of other low carbon technologies’ (Section 3.6 of Annex I to the Climate Delegated Act) where not covered by other sections and where they meet the activity description. As the activity description in Section 3.6 is very broad, NACE codes C22, C25, C26, C27 and C28 should be considered as advice for the scope of this activity. The scope of NACE codes for this activity notably includes tyres and semi-conductors, if those products meet the activity description (see also question 19). Mining, by contrast, would not be covered by the description.

Justification:

- Article 19 of REGULATION (EU) 2020/852 indicates that the taxonomy should: “cover all relevant economic activities within a specific sector and ensure that those activities are treated equally if they contribute equally towards the environmental objectives set out in Article 9 of this Regulation, to avoid distorting competition in the market.”
- Screening criteria in categories 3.2 and 3.4 are appropriate for most battery and hydrogen-specific components, though questions could arise on what battery components are covered. 3.6 would in its current interpretation present significantly higher hurdles for compliance than category 3.3 and therefore defacto would introduce unequal treatment of sector activities that contribute equally to environmental objectives.

For further information, you can contact
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About CLEPA

CLEPA, the European Association of Automotive Suppliers, represents over 3,000 companies supplying state-of-the-art components and innovative technologies for safe, smart, and sustainable mobility.

CLEPA brings together over 120 global suppliers of car parts, systems, and modules and more than 20 national trade associations and European sector associations. CLEPA is the voice of the EU automotive supplier industry linking the sector to policy makers.

- The automotive sector accounts for 30% of R&D in the EU, making it the number one investor.
- European automotive suppliers invest over €30 billion yearly in research and development.
- Automotive suppliers register over 9,000 new patents each year.
- Automotive suppliers in Europe generate 1.7 million direct jobs.

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