



SECTOR PAPER

**Keys to a successful
implementation of the EU's
sustainable financial taxonomy**

January 2022

Contents

Executive summary.....	2
1. Introduction.....	3
2. Role of automotive suppliers in production of electric vehicles.....	4
3. CLEPA interpretation of taxonomy and EV component production.....	7
4. Conclusion.....	12

The EU Sustainable Finance Taxonomy is intended to direct financing to sustainable activities. The delegated act on sustainable activities for climate change adaptation and mitigation objectives provides screening criteria that explicitly recognise the contribution of the manufacturing of hydrogen vehicles and components, batteries and electric vehicles (EV) to the realisation of climate objectives. The delegated act however does not address EV components explicitly.

CLEPA considers automotive supplier investments and revenues related to the production of EV components taxonomy eligible and considers the tailpipe screening criteria of 3.3 more suitable than the life cycle assessment criteria identified in category 3.6 to declare taxonomy alignment. Vehicle manufacturers can declare revenues and capital expenditures related to electric vehicle sales taxonomy aligned on the basis of a tail-pipe assessment.

The costs of EV components is included in the EV sales price and included in the revenues reported by the vehicle manufacturer. The same screening criteria of category 3.3 should therefore apply to revenues and capital expenditures related to the sale and production of EV components by suppliers. A distinction between vehicle assembly and component production in the implementation of the EU taxonomy would disadvantage automotive suppliers over vehicle manufacturers, as the methodology to determine tailpipe emissions is regulated and codified and is significantly less broad in scope than an LCA. Requiring different screening criteria for the production of finished vehicles and components would therefore constitute a breach of article 19(J)¹ and supporting point 45² of the EU taxonomy regulation.

Electric vehicles are complex systems made of software and hardware parts working together to deliver the final performance in terms of safety, comfort, useability, cost of ownership and emissions. Automotive suppliers are responsible to up to 75% of investment and value creation related to vehicles. The implementation of the EU taxonomy will only efficiently direct capital to the transport equipment sector, if automotive suppliers can apply similar screening criteria as vehicle manufacturers and thus access the market for sustainable investment at equal terms. Nothing less than the successful green transformation and global competitiveness of the EU's automotive industry is at stake.

1. Article 19 of REGULATION (EU) 2020/852: *"[The technical screening criteria established pursuant to Articles 10(3), 11(3), 12(2), 13(2), 14(2) and 15(2) shall] 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"*

2. 45) of REGULATION (EU) 2020/852: *"The potential capacity to contribute to those environmental objectives can vary across sectors, which should be reflected in those criteria. However, within each sector, those criteria should not unfairly disadvantage certain economic activities over others if the former contribute to the environmental objectives to the same extent as the latter."*

1. Introduction

The EU Sustainable Finance Taxonomy Regulation (referred to in this document as “EU taxonomy”) is intended to enable financial markets to effectively direct investments to economic activities contributing to environmental sustainability, including climate change mitigation objectives. The mobility sector plays a crucial role in achieving EU's goal of carbon neutrality by 2050 at the latest. At present, the transport sector accounts for around 30% of total EU carbon emissions and automotive suppliers and vehicle manufacturers together are mobilising investments to significantly reduce GHG emissions related to mobility by accelerating the shift towards emission-free transport. EVs will play an essential role in reaching GHG emission reductions in the transport sector and the ability of automotive suppliers to invest in further decarbonisation of mobility will make or break the required electrification transformation.

It is critical that the implementation of the EU taxonomy does not distort capital allocation in the transport sector by making a distinction between insourced and outsourced vehicle manufacturing and between vehicle manufacturers (assembly) and suppliers (component production). This would also create less favorable access to green financing for European suppliers against their competitors listed in other regions of the world. Article 19 (j) of the regulation rightly states that *“The technical screening criteria ...shall 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.”* Supporting point 45 of the EU taxonomy regulation³ reinforces this objective of the regulation by stating that “[...] criteria should not unfairly disadvantage certain economic activities over others if the former contribute to the environmental objectives to the same extent as the latter.”

This document focuses on the critical contribution of automotive suppliers to the design and manufacturing of EVs, as this is the technology most affected by ambiguity in the EU taxonomy. Nevertheless, it is worth mentioning that CLEPA sees a role for other technologies to reach climate-neutral mobility, including hybrid technology, green hydrogen, and renewable sustainable fuels.

3. REGULATION (EU) 2020/852 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL, 18 June 2020

2. Role of automotive suppliers in production of electric vehicles

The EU automotive supplier industry generates nearly €340 billion in revenues annually. A substantial share of this turnover is already generated by producing hybrid and zero emission vehicles. This portion share is growing dynamically and underlines the relevance of the industry for the green transformation of industry. To make the EU taxonomy a success story, it will be critical that automotive suppliers can make use of the technical screening criteria most suitable to declare taxonomy alignment of their economic activities.

“The EU automotive supplier industry generates nearly €340 billion in revenues annually”

To deliver the transition, automotive suppliers invest annually over €30 billion in research and development. At least 30% of those investments is dedicated to electric mobility. Over the past years, automotive suppliers have consistently increased their R&D investments. PwC Strategy& analysis of the 19 biggest European headquartered suppliers shows an increase of R&D investment from 5% in 2016 to 5.5% of revenues in

2020, with one supplier reaching an R&D spent of more than 10%.⁴ EVs are designed and produced as a result of multi-company joint efforts, mainly vehicle manufacturers and suppliers, where up to 75% of the research, development and revenues come from suppliers.

Some systems or parts of an EV can be designed and/or produced either by the vehicle manufacturer or supplier, depending on the commercial relationships for this particular vehicle. For instance, seats and interiors and electronics that contribute in particular to the car safety (active and passive crash-worthiness, human-machine interface etc.) can be either designed and produced by vehicle manufacturers, or designed by vehicle manufacturers and produced by suppliers, or designed and produced by suppliers.

Whereas vehicle manufacturers play an important role in translating consumer preferences in clear parameters for the design and assembly of vehicle, automotive suppliers deliver the technologies and components that meet those parameters. Automotive suppliers are researching, designing and industrialising systems (e. g. chassis systems, electronics, body parts, axles, interiors, seats, electronics, many other components) as part of EVs (battery or fuel

4. PwC Strategy&, July 2021, For a successful automotive supplier industry of tomorrow: Analysis of R&D investments of 9 biggest European headquartered suppliers (excluding Germany) and 10 biggest German headquartered suppliers

cell powered) that emit zero tailpipe CO₂ and pollutants.

Such systems are defined as per OEM requirements, so that they display appropriate performance contributing to the complete EV set up, which makes it competitive and/or regulation-compliant, in particular as concerns safety, aerodynamics, weight reduction, CO₂ footprint, range, comfort, human interface, noise and more. In addition, many of these technologies extend the driving range by up to 20-30% - one of the most crucial differentiation factors.

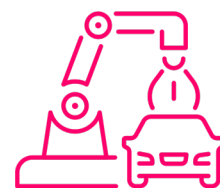
An EV is much more than a combustion engine vehicle where the powertrain has been exchanged. The size of the battery and different positioning in the vehicle, the elimination of large engines and change of electronic architecture changes the entire vehicle design from platform, cockpit, interior to even front grille and body of the vehicle. Consumers do not buy a car for a single component such as the best battery, but buy a car for design, overall performance, safety and increasingly the quality of the user-interface systems.

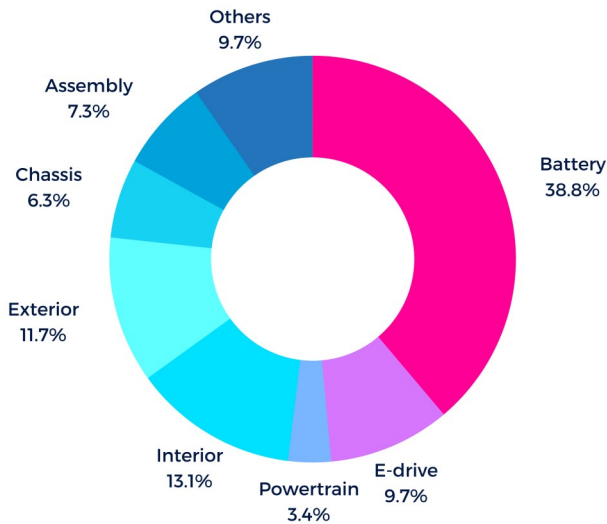
No policy will succeed in getting more EVs on the road if automotive suppliers and vehicle

manufacturers together do not manage to design and introduce new models that keep delivering on all these criteria.

“An EV is much more than a combustion engine vehicle where the powertrain has been exchanged”

It is therefore critical that research, development, validation, and manufacturing activities of these components can access capital on non-discriminatory terms. Automotive suppliers' contribution to the production of electrified vehicles has to be recognized.





Vehicle assembly represents less than 10% of electric vehicle production costs



Category for low and zero emission vehicles should include component production

Source: World Electric Vehicle Journal, 3 February 2021, cost structure of current EV's

Sample car: basic equipment

OEMs

Taxonomy eligible turnover: €39k

Suppliers

Taxonomy eligible turnover: €0 - 31.2k (depending on the interpretation)



80% of a finished vehicle's revenue depends on components sold by suppliers to vehicle manufacturers

Sample car: premium edition

Additional features: €12,6k

- Interior: €3k
- Exterior: €0.6k
- Sport package: €1.4k
- Comfort package: €0.5k
- Roof: €1.3k
- Assistant system: €2.7k
- Connectivity: €0.5k
- Others: €2.6k
- Zero emissions drivetrain: €0k

OEMs

Taxonomy eligible turnover: €51.6k

Suppliers

Taxonomy eligible turnover: €0 - 41.3k (depending on the interpretation)



Finished vehicle revenues include component value not intrinsically linked to powertrain change

The appeal of low and zero emission vehicles isn't only in the design and finished product of the assembled car. Different features, including safety, materials, and digital innovations are all elements which play a role in a consumer's choice. These different features are designed and produced by automotive suppliers and vehicle manufacturers in close cooperation. Equal treatment of vehicle manufactures and suppliers is therefore critical for the green transition.

3. CLEPA interpretation of taxonomy and EV component production

3.1. CLEPA considers technical screening criteria of category 3.2, 3.3, 3.4, 3.6 relevant for automotive suppliers

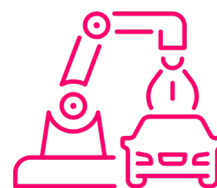
The delegated act for climate change mitigation under the EU taxonomy, in the following referenced to as Annex 1, provides four categories of relevance for automotive suppliers:

- 3.2 Manufacture of equipment for the production and use of hydrogen
- 3.3 Manufacture of low carbon technologies for transport
- 3.4 Manufacture of batteries
- 3.6 Manufacture of other low carbon technologies

Whereas the specific supplier activity related to the design and production of components necessary for vehicles fueled by hydrogen and the manufacture of batteries for transport are clearly eligible under category 3.2 and 3.4⁵, NACE codes provided in category 3.3 could lead to the interpretation that further design and production of components for emission-free vehicles are not eligible. As vehicles are complex systems for which every individual component is of critical

relevance as explained above, CLEPA dismisses this view. That components for emission-free vehicles should be eligible follows logically from article 10c and 10i of the regulation (EU) 2019/2088 which explicitly recognises all activities that enable increasing clean or climate neutral mobility as substantially contributing to climate change mitigation.

With category 3.6 a dedicated category for business activities that are not covered by the other dedicated manufacturing categories is introduced: 3.6 manufacture of other low carbon technologies. CLEPA considers that this category could be of relevance for automotive suppliers too but considers category 3.3 more appropriate for the production of EV components, given its reliance on tailpipe emissions for which codified, and industry wide accepted and regulated measurement methodologies exist.



5. Category 3.2 defines activities related to 'manufacture of equipment for the production and use of hydrogen', not distinguishing between vehicles and components.

3.2 Category 3.3 implicitly recognises EV component production, considering workings of automotive supply chain

The technical screening criteria in category 3.3 for the manufacture of low carbon technologies for transport explicitly target the manufacturing of vehicles. The production of components goes beyond enabling the manufacturing of vehicles and should be understood as an integral part of vehicle manufacturing. The screening criteria in 3.3 are therefore the most appropriate for the production of EV components. It is critical to treat the referenced NACE codes in the description of category 3.3 in Annex 1⁶ (screening criteria for climate mitigation) of the delegated act to the EU taxonomy regulation as illustrative rather than prescriptive, as suggested by the phrase "could be associated with several NACE codes".

A distinction between vehicle manufacturers and automotive suppliers on the grounds of the latter not being referenced through the NACE code 29.3 would fail to appreciate the reality of the automotive supply chain which depends on co-design and significant investments by automotive suppliers prior to the delivery of the first or-

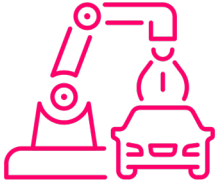
der to the vehicle manufacturer. Therefore, any economic activities by automotive suppliers enabling the "production of urban, suburban and road passenger transport devices, where the direct (tailpipe) CO₂ emissions of the vehicles are until 31 December 2025 lower than 50gCO₂/km and from 1 January 2026 zero⁷", should qualify as being in principle eligible, and aligned in case screening criteria are met and do not harm criteria respected⁸. The workings of the automotive supply chain do not justify an artificial distinction between the assembly of a finished vehicle and the production of components, as the majority of the value creation and R&D to create the vehicle are connected to the design and production of components.

Vehicle assembly and component production are an integrated design and production process based on cooperation between vehicle manufacturers and suppliers. Separating revenues, capital expenditures and operational expenditures related to the manufacturing of finished vehicles and the manufacturing of components would therefore in practice come down to a distinction between legal actors (vehicle manufacturer vs. suppliers) instead of making a distinction based on

6. Annex 1 of the taxonomy regulation delegated act stresses that category 3.3 applies *in particular* to NACE code 29.1 and leaves automotive supplier activity falling under NACE code 29.3 unmentioned.

7. References economic activity described in category 3.3 c, d, e, f, g, h and i.

8. Taxonomy Regulation Delegated Act, Annex 1, <https://ec.europa.eu/finance/docs/level-2-measures/taxonomy-regulation-delegated-act-2021-2800-annex>



the nature of the activity. An interpretation that excludes supplier activity from category 3.3 will not only present a breach of article 19(J) of the regulation; it will result in suboptimal allocation of capital to investment activities in the very technologies that are needed to fully scale zero carbon transport.

3.3 Excluding component production from category 3.3 will unfairly disadvantage automotive suppliers compared to vehicle manufacturers and undermine the competitiveness of the European automotive industry

Excluding automotive suppliers from category 3.3 means that automotive suppliers will have to apply the technical screening criteria provided in category 3.6 for activities related to the production of components for EVs. This means that automotive suppliers will have to demonstrate substantial life cycle GHG emission savings compared to the best performing alternative technology/product/solution available on the market. Where for category 3.3 a proof that an activity is related to the manufacturing of low and later zero tailpipe emission vehicles, the

screening criteria in category 3.6 would require extensive and costly benchmarking for which ultimate parameters are uncertain.

Given the diversity of technological offerings and EV-related innovation it is difficult or impossible to determine the best performing alternative solution. More fundamentally, there is currently no unified methodology for life cycle assessments, despite the ambition articulated in the 2019 mobility package to define such a methodology. Moreover, the use phase would need to consider fuel CO₂ footprint, including electricity, making the LCA result highly dependent of the place of use. This would be especially valid in the European Union, here the electricity mix varies greatly (factor of 10) from Member State to Member State.

LCA's that take this into account suggest that for instance a battery electric vehicle in Poland, Czechia and Estonia would under their current energy mix realise at best a 10 percentage point life cycle Co₂ emission reduction compared to a diesel vehicle, in France and Estonia this could be up to sixty percentage points⁹. A supplier to vehicle manufacturers with higher sales in countries with a dirtier energy mix would therefore

9. [Ricardo Energy & Environment, July 2020:](#)

face a higher hurdle to qualify than a supplier of a vehicle manufacturer with higher sales in countries with a cleaner energy mix.

Tailpipe emission targets as defined in category 3.3 on the other hand can be measured through a codified methodology using the standards of the Worldwide Harmonised Light Vehicle Test Procedure (WLTP). To avoid disadvantageous treatment of automotive suppliers it is therefore critical that automotive suppliers are able to consider category 3.3 as it would avoid exposing suppliers to more uncertainty than vehicle manufacturers.

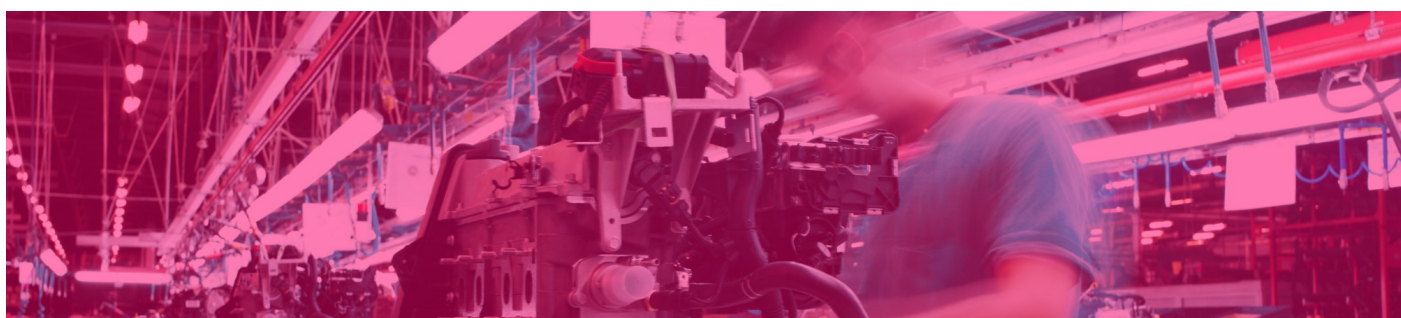
Several studies have, in this context, highlighted the complexity of LCA's¹⁰. In the production stages, the car parts are typically manufactured and assembled at various locations, making it necessary to incorporate the effects of shipping and production in different geographies. Besides

these stages, consumer usage, after-sales services, repair and maintenance, and disposal and recycling could require analysis when evaluating the GHG emission savings of a vehicle and its specific components.

3.4 Screening criteria of category 3.6 could apply to component production if automotive suppliers prefer an LCA over tailpipe

The annex defines the scope of 3.6 as 'manufacture of technologies aimed at substantial GHG emission reductions in other sectors of the economy, where those technologies are not covered in Sections 3.1 to 3.5 of this Annex.'

CLEPA sees no distinction between powertrain components such as batteries, electric motors, electric transmission components, regenerative braking systems, thermal management and



10. <https://link.springer.com/article/10.1007/s11367-021-01893-2>, <https://www.mdpi.com/2071-1050/13/9/4872/pdf>



power electronics, and components in all other domains that shape the performance of the car. A vehicle seat, chassis system or body part which was explicitly designed and/or marketed for an EV is from a supplier's perspective then also entirely "aimed at substantial GHG emission reductions".

The use-phase of components has a share of 80-90% of the carbon footprint and suppliers' key contribution to reduce GHG emissions is shifting their portfolio to emission-free transport as well. CLEPA recognises 3.6 as a common and universal category to claim eligibility for automotive supply chain activities dedicated to emission-free transport as an LCA is appropriate way to substantiate Co2 emission reductions realised by component production throughout use-phase of an EV.

Nevertheless, the technical complexity and methodological unclarity surrounding LCA's will make category 3.3 in most cases less burdensome and more suitable to declare taxonomy eligibility and alignment than category 3.6.

"If research, design and production of components for EVs are not considered taxonomy eligible under category 3.3 (3.2, 3.4 or 3.6), this will distort the level playing field between vehicle manufacturers and automotive suppliers"



4. Conclusion

If research, design and production of components for EVs are not considered taxonomy eligible under category 3.3 (3.2, 3.4 or 3.6), the level playing field between vehicle manufacturers and automotive suppliers will be distorted. This could over the years allow vehicle manufacturers to access capital at better conditions and distort competition in the capital market.

Furthermore, it should be noted that differences in the access to the market for sustainable finance could impact competition in the market in areas where vehicle manufacturers and suppliers compete, such as the aftermarket and potential insourcing of manufacturing activities by vehicle manufacturing as a response to changing production requirements and labour intensity of key components and modules. Moreover, it would give a competitive advantage to non-European suppliers that could have a better access to international green financing. It would therefore undermine the competitiveness of the European automotive industry altogether.

More importantly, an interpretation of the taxonomy in which the production of components faces a higher hurdle to prove taxonomy than the assembly of EVs would undermine the taxonomy's objective to foster transparency in the mar-

ket for sustainable investment. Key research and development and manufacturing activities of technologies related to EVs may find it harder to be recognised as sustainable investment objectives than activities related to the assembly of the vehicles. This could slow the required innovation process to pave the way towards climate neutral mobility.

CLEPA therefore considers business activity by automotive suppliers to qualify as taxonomy eligible and aligned under the conditions formulated in category 3.3 – or where for the nature of the activities more appropriate under 3.2, 3.4 or 3.6.

[Would like to know more?](#)

You can contact
CLEPA's Trade and Market Affairs Manager
[Nils Poel](mailto:n.poel@clepa.be) at n.poel@clepa.be

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 euros** 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.

Status	January 2022
Image licences	CLEPA, Adobe
All rights reserved	European Association of Automotive Suppliers (CLEPA)

Follow our activities:
[@CLEPA_eu](#)