CircHive

D3.1.3: Review uptake of EU Taxonomy and substantial BD contribution, reporting practice under CSRD and green investment practice. Development of BD-centric investment criteria based on learnings

Part of D3.1: Living review and recommendations for mainstreaming BD in ESG (1st version)

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List of Abbreviations	Definition
AIF	Alternative Investment Funds
BAT	Best Available Techniques
CSRD	Corporate Sustainability Reporting Directive
DNSH	Do No Significant Harm
EIA	Environmental Impact Assessment
ESA	European Supervisory Authorities
ESG	Environmental, social, governance
EFRAG	European Financial Reporting Advisory Group
ESRS	European Sustainability Reporting Standards
FMP	Financial Market Participants
GHG	Greenhouse gas
ISO	International Organization for Standardization
PAI	Principal Advice Impacts
PSF	Platform on Sustainable Finance
SFDR	Sustainable Finance Disclosure Regulation
UCITS	Undertakings for Collective Investment in Transferable Securities

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Goal of Task 3.1

3.1.1. Introduction

The present document comprises two key initial outputs, which will serve as a living document throughout the life of the grant. First, the authors have explored in depth the EU Taxonomy Climate Delegated Act, and propose a methodology to analyse DNSH interoperability, particularly for the biodiversity and water objectives. For this part of the report, Dr. Cojoianu is grateful to his co-authors Dr. Andreas Hoepner (UCD), Dr. Fabiola Schneider (UCD) and Ms. Anh Vu (DCU), who have been working on a larger academic study which will be submitted to the Commission as another associated output in August 2024. For the second part of this report, Dr. Cojoianu and Dr. Viitala outline their contribution to the EU Platform on Sustainable Finance in the areas of natural capital throughout 2023 and 2024. This contribution will further entail, later in the year, the design for specific criteria under the EU Platform on Sustainable Finance, plus an additional guidance on a new financial instrument, the EU's Nature Protection Benchmarks.

3.1.2. EU Taxonomy and "Do No Significant Harm" Review of Biodiversity and Water Objectives

Context

The EU Green Taxonomy is a framework and data dictionary set by the European Union to boost sustainable investment and provide much needed clarity for investors on what constitute green economic activities. The six environmental objectives under the taxonomy are:

1. Climate change mitigation
2. Climate change adaptation
3. Sustainable use and protection of water and marine resources
4. Transition to a circular economy
5. Pollution prevention and control
6. Protection and restoration of biodiversity and ecosystems

For an activity to be deemed sustainable under this classification, it must significantly contribute to one of these objectives without detrimentally impacting any of the others, while also adhering to specific technical criteria. Moreover, it must uphold minimum social safeguards based on established international guidelines.

In the EU Taxonomy, there's multiple assessment steps, each economic activity needs to pass to be considered Taxonomy-aligned, i.e. green. First, it must be in scope of the EU Green Taxonomy. This is labelled eligible and means criteria have been developed for this activity. Next, substantial contribution to one of the six environmental objectives is assessed by applying activity specific so-called Technical Screening Criteria. These objectives encompass two climate objectives - Climate Change Adaptation and Mitigation – as well as Biodiversity & Ecosystems, Water & Marine Resources, Circular Economy, and Pollution Prevention.

If substantial contribution is established, there is still entity level minimum social safeguards and activity level Do No Significant Harm (DNSH) criteria which must be met. DNSH reflects that the EU Green Taxonomy has

six environmental objectives which are all equally weighted. Even when substantial contribution to at least one objective is established, no significant harm must be done in the context of the other objectives. The below outline summarizes the four steps which lead to Taxonomy Alignment of an activity:

In total there are four steps for an activity to be considered sustainable as part of the EU Taxonomy:

1. Eligibility: The activity must be in scope of the current regulation.
2. Substantial Contribution: To one of the six environmental objectives.
3. DNSH: To the other five environmental objectives.
4. Minimum Social Safeguards: Ensuring a baseline for social aspects.

Methodology Criteria for DNSH Review

To review the natural capital related criteria related to “do no significant harm” (DNSH) under the EU Taxonomy, namely, the water and biodiversity DNSH criteria under the first climate delegated act, we slightly modify the methodology proposed by the EU Platform on Sustainable Finance, which is explained in more depth below. In addition, a deep review of the regulations and international standards which underpin the DNSH criteria, which provides a bedrock for further comparison with other taxonomies around the world is presented.

The Platform has analyzed the current Do No Significant Harm criteria and the required assessments for each. This analysis covered all environmental objectives, identifying five distinct categories for the criteria. The primary category, Type A, involves concrete thresholds like specific emission levels per kWh, as seen in the energy sector's climate change mitigation DNSH criteria. Type A is quantitative and highly practical. Next, Type B, considered second-best for usability, involves procedural measures, such as implementing strategies to prevent wildlife collisions, relevant in DNSH for ecosystems. These measures can be evaluated both quantitatively and qualitatively and are generally straightforward to assess. Type C criteria are based on International Standards and EU Legislation, which can be assessed either quantitatively or qualitatively. Types D and E are less user-friendly. Type D is tied exclusively to EU legislation, limiting its applicability outside the EU. Additionally, the distinction between EU regulations and directives is crucial, as directives leave room for varied interpretations by Member States, complicating usability, especially where directives are not yet adopted in certain countries. Type E, on the other hand, sets forth goals rather than measurable standards, exemplified by the aim to reduce peat extraction within Circular Economy DNSH criteria—lacking in quantifiable benchmarks, such goals are challenging to assess.

Type	Name		Example	Assessment
A	Second Threshold		*Climate Change Mitigation:* "The direct GHG emissions of the activity are lower than 270g CO2e/kWh."	Quantitative
B	Process Measure		*Ecosystems:* "Where relevant, maintenance of vegetation along road transport infrastructure ensures that invasive species do not spread. Mitigation measures have been implemented to avoid wildlife collisions."	Quantitative & Qualitative
C	International Standards & EU Legislation		*Pollution:* "Measures in place to minimise toxicity of anti-fouling paint and biocides as regulated in the Biocidal Products Regulation: (EU) 528/2012, which implements (in the EU) the International Convention on the Control of Harmful Anti-fouling Systems on Ships, which was adopted on 5 October 2001."	Quantitative & Qualitative
D	EU Only Legislation	D1.1 EU Regulation	*Pollution:* "The activity complies with Regulation (EU) 2019/1009 or national rules on fertilisers or soil improvers for agricultural use."	Quantitative & Qualitative
		D1.2 EU Directive	*Ecosystems:* "An Environmental Impact Assessment (EIA) or screening has been completed in accordance with Directive 2011/92/EU."	
E	Non-assessable Ambition		*Circular Economy:* "Peat extraction is minimised."	Not possible

Figure 1. EU Platform on Sustainable Finance EU Taxonomy DNSH Criteria Usability

Proposed interoperability classification of DNSH

Based on the classification above, we adjust the methodology for assessment of interoperability of DNSH criteria in the Delegated Act on sustainable activities for climate change adaptation and mitigation objectives[1] as published in December 2021. Interoperability in this sense is defined as the ability to seamlessly adapt the EU Taxonomy outside the European context, potentially with other taxonomies. This first delegated act introduces substantial contribution criteria for the two climate related objectives, Climate Change Mitigation and Climate Change Adaptation. It also includes DNSH criteria for all six environmental objectives. It applies from January 2022. This will be further updated with the Taxo 4 delegated act by Dec 2024 and further delegated acts related to the taxonomy as they advance in the EU legislative process.

As a first step, we identify all the unique DNSH criteria in the climate delegated act. We compile a list including each criterion's environmental objective as well as a count on how many times the unique criterion appears, i.e. to how many activities it relates.

We then categorize the unique criteria into three types which are summarised in Table 1.

Type	Name	Example
1	Interoperable	Thresholds and process measures
2	International standards (in combination with EU Legislation)	ISO
3	EU Only Legislation	EU Directives and Regulations

Table 1: Interoperability Types 1 to 3

[1] https://finance.ec.europa.eu/publications/sustainable-finance-package_en

DNSH criteria falling under **Type 1** are **generally interoperable**. Criteria in this category include thresholds such as "*The direct GHG emissions of the activity are lower than 270g CO2e/kWh*" from the Climate Change Mitigation objective. Also process measures such as found under the Ecosystems objectives fall within Type 1: "*Where relevant, maintenance of vegetation along road transport infrastructure ensures that invasive species do not spread. Mitigation measures have been implemented to avoid wildlife collisions*". For both examples, an assessment is straightforward, irrespective of the jurisdiction. Therefore, we consider these criteria interoperable.

Type 2 criteria are characterized by referencing international standards, often in combination with EU legislation. An example can be found in the Pollution objective DNSH: "*Measures in place to minimise toxicity of anti-fouling paint and biocides as regulated in the Biocidal Products Regulation: (EU) 528/2012, which implements (in the EU) the International Convention on the Control of Harmful Anti-fouling Systems on Ships, which was adopted on 5 October 2001*". Here, **interoperability is feasible if the jurisdiction in question uses the international standard**.

Type 3 criteria might prove **challenging with regard to interoperability as they only rely on EU legislation**. An example is the following Pollution objective DNSH which references an EU regulation: "*The activity complies with Regulation (EU) 2019/1009 or national rules on fertilisers or soil improvers for agricultural use*". Interoperability might be even more difficult for DNSH objectives which references Directives such as the following from the Ecosystems objective: "*An Environmental Impact Assessment (EIA) or screening has been completed in accordance with Directive 2011/92/EU.*". Directives are implemented at national level and therefore might not be applied in a uniform manner across the EU. Thus, establishing international equivalence could pose an even bigger issue. We distinguish between EU-wide legislation under Type 3a and nationally implemented pieces such as EU Directives and Best Available Techniques (BAT) under 3b.

Often a single DNSH criterion includes multiple categories. We aggregate to a single classification based on interoperability: 3>2>1.

EU or International regulation/ law/ best practice	Environmental Objective(s)	Brief explanation (context)	Frequency	Type
Directive 2011/92/EU	Sustainable use and protection of water and marine resources; Protection and restoration of biodiversity and ecosystems	**In Appendix B**: An Environmental Impact Assessment is carried out in accordance with **Directive 2011/92/EU** (on the **assessment of the effects of certain public and private projects on the environment**) and includes an assessment of the impact on water in accordance with Directive 2000/60/EC. **In Appendix D**: An Environmental Impact Assessment (EIA) or screening has been completed in accordance with **Directive 2011/92/EU** (on the **assessment of the effects of certain public and private projects on the environment**).	118	3

The Natura 2000 network of protected areas, UNESCO World Heritage sites and Key Biodiversity Areas, as well as other protected areas	Protection and restoration of biodiversity and ecosystems	**In Appendix D**: For sites/operations located in or near biodiversity-sensitive areas (including the Natura 2000 network of protected areas, UNESCO World Heritage sites and Key Biodiversity Areas, as well as other protected areas), an appropriate assessment has been conducted and based on its conclusions the necessary mitigation measures are implemented. The activity does not have significant effects on protected areas (UNESCO World Heritage sites, Key Biodiversity Areas, as well as other protected areas than Natura 2000 sites), and protected species based on an assessment of its impact that takes into account the best available knowledge.	63	2
Directive 2000/60/EC	Sustainable use and protection of water and marine resources	**In Appendix B**: Risks related to preserving water quality and avoiding water stress are identified and addressed as defined in Article 2, points (22) and (23), of Regulation (EU) 2020/852, in accordance with **Directive 2000/60/EC** (establishing a **framework for Community action in the field of water policy**) and a water use and protection management plan, developed thereunder for the potentially affected water body or bodies, in consultation with relevant stakeholders. **In Appendix B**: An Environmental Impact Assessment is carried out in accordance with Directive 2011/92/EU and includes an assessment of the impact on water in accordance with **Directive 2000/60/EC.**	61	3
Regulation (EU) 2020/852	Sustainable use and protection of water and marine resources	**In Appendix B**: Risks related to preserving water quality and avoiding water stress are identified and addressed as defined in Article 2, points (22) and (23), of **Regulation (EU) 2020/852** (on the **establishment of a framework to facilitate sustainable investment**), in accordance with Directive 2000/60/EC and a water use and protection management plan, developed thereunder for the potentially affected water body or bodies, in consultation with relevant stakeholders.	59	3
Directive 2008/56/EC	Sustainable use and protection of water and marine resources	The activity does not hamper the achievement of **good environmental status**, as set out in **Directive 2008/56/EC (establishing a framework for community action in the field of marine environmental policy)**, requiring that the appropriate measures are taken to prevent or mitigate impacts in relation to that Directive's Descriptor 11 (**Noise/Energy**) The activity does not hamper the achievement of good environmental status as set out in **Directive 2008/56/EC**, requiring that the appropriate measures are taken to prevent or mitigate impacts in relation to that Directive's Descriptors 1 (**biodiversity**) and 6 (**seabed integrity**), laid down in Annex I to that Directive.	8	3

Decision (EU) 2017/848	Sustainable use and protection of water and marine resources; Protection and restoration of biodiversity and ecosystems	**Decision (EU) 2017/848** laying down criteria and methodological standards on good environmental status of marine waters and specifications and standardised methods for monitoring and assessment.	4	3
Directive 2009/147/EC	Protection and restoration of biodiversity and ecosystems	In the Union, in any area: the activity is not detrimental to the recovery or maintenance of the populations of species protected under D**irective 2009/147/EC** (**on the conservation of wild birds**) at a favourable conservation status.	2	3
Directive 92/43/EEC	Protection and restoration of biodiversity and ecosystems	In the Union, in relation with Natura 2000 sites: the activity does not have significant effects on Natura 2000 sites in view of their conservation objectives on the basis of an appropriate assessment carried out in accordance with Article 6(3) of Council **Directive 92/43/EEC** (on the **conservation of natural habitats and of wild fauna and flora**).	2	3
Regulation (EU) No 1143/2014	Protection and restoration of biodiversity and ecosystems	In the Union, the introduction of invasive alien species is prevented, or their spread is managed in accordance with **Regulation (EU) No 1143/2014** (on the **prevention and management of the introduction and spread of invasive alien species**).	1	3

Table 2: EU regulation and international standards for biodiversity and water underpinning the EU Taxonomy

Given that most of the criteria underpinning the taxonomy in the area of natural capital are type 3, it means that interoperability with other taxonomies will be decided on the compatibility of the legislative framework between the EU and other jurisdictions.

3.1.3. Contributions of CircHive members to the EU Platform on Sustainable Finance

Dr. Theodor Cojoianu of University of Edinburgh and Dr. Esa-Jussi Viitala of Luke have been elected to the EU Platform on Sustainable Finance, where they provided substantial input on natural capital advice to the Commission. We summarize here the key contributions and associated outputs from the EU Platform on Sustainable Finance:

3rd of May 2023 Response to the EU Taxonomy – Taxo4 Delegated Act

Dr. Cojoianu, as one of the lead contributors to the EU Platform on Sustainable Finance Methodological Report on Taxo 4 , which is a precursor report to the 3rd of May EU PSF response, has helped frame a level of ambition to underpin the EU Taxonomy for biodiversity and has concluded that biodiversity offsets cannot be considered on their own as being a substantial contribution to the EU's Biodiversity objective. This advice has been reflected in the report by:

- The framing of the EU Taxonomy's biodiversity objective as: "To ensure that by 2050 all of the world's ecosystems and their services are restored to a good ecological condition, resilient, and adequately protected. The objectives of the EU Biodiversity Strategy will be achieved at latest by 2030. From

today the world's biodiversity needs to be put on the path to recovery and no deterioration in conservation trends and status of all protected habitats and species by 2030 will be ensured." (EU PSF March 2022 Report, p. 34)

- And by further advising the Commission on the concept of Do-No-Significant-Harm and biodiversity offsets by acknowledging the following "Implementing the EU legal framework for nature restoration requires clear and binding targets and timelines, as well as clear definitions and criteria on restoration and/or the sustainable use of ecosystems. A key concept for this is the mitigation hierarchy and its systematic application is central to the Do No Significant Harm framework. In the mitigation hierarchy, offsets are the last resort set of measures in the series of essential sequential steps that must be taken to limit any negative impacts on biodiversity. In line with this definition, offsets are therefore a criterion in the do no significant harm (DNSH) framework and cannot as such be considered as substantially contributing to biodiversity."

Following the initial advice, the Commission suggested in its consultation towards the DELEGATED REGULATION (EU) 2023/2486 (Environmental Delegated Act), that offsets could be potentially considered as a large part of substantial contribution under the EU Taxonomy. Dr. Cojoianu and Dr. Viitala have reiterated that for the economic activity titled: "Conservation, including restoration, of habitats, ecosystems and species" under the EU Taxonomy, biodiversity gain only accounts for activities which are not a result of offsetting (EU PSF Response, May 2023, p.18).

12th of April Response to the European Supervisory Authorities – ESAs Joint Consultation Paper on the review of SFDR Delegated Regulation regarding

The Sustainable Finance Disclosure Regulation (SFDR) mandates that asset managers and other participants in financial markets disclose their practices regarding environmental, social, and governance (ESG) factors, with key sections of the regulation coming into force on March 10, 2021. Introduced by the European Commission as part of a broader initiative stemming from its Action Plan on Sustainable Finance, the SFDR is part of a legislative package that includes the Taxonomy Regulation and the Low Carbon Benchmarks Regulation.

The primary goal of the SFDR is to ensure fairness and transparency among financial market participants (FMPs) and financial advisers concerning sustainability risks, the incorporation of considerations for adverse sustainability impacts in their investment decisions, and the sharing of sustainability-related information regarding financial products. It obligates asset managers, including those managing Alternative Investment Funds (AIFMs) and Undertakings for Collective Investment in Transferable Securities (UCITS), to make detailed and standardized disclosures on the incorporation of ESG considerations at both the company and product levels. The SFDR's requirements are broad, applying to all asset managers regardless of their explicit focus on ESG or sustainability themes. This results in additional disclosure obligations for financial market entities in various documents, including: their websites; prospectus documents; and periodic reports.

The ESAs have asked for advice from the Platform on how the principle adverse indicators, including on water and biodiversity under SFDR can be improved. Dr. Cojoianu and Dr. Viitala led on the response of the Platform on biodiversity in particular, and advised the ESAs in terms of revising their principal adverse indicators in the following way:

PAI (Principal Advice Impacts) 7 – Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas "The Platform recommends that for the mandatory biodiversity PAI indicator, two options are advised to modify the definition of 'activities negatively affecting biodiversity sensitive areas´. Option A: mitigation measures are fully excluded from the definition, given that they do not ensure no significant harm to biodiversity. Option B: if mitigation measures are kept, the Platform recommends that carrying out and implementing Environmental Impact Assessments (EIAs) is mandatory and these are publicly disclosed or, for activities located in third countries, conclusions, and equivalent environmental impact assessments are adopted in accordance with national provisions or international standards and publicly disclosed. The Platform asks for greater consideration for 22 international standards to apply, specifically concerning those jurisdictions which do not have EIA practices. The Platform expresses a preference towards Option A, given the low confidence in both EIAs as mitigation measures and substantial lack of data by governments worldwide quantifying the degradation and intactness of ecosystems that can be attributed to different types of economic activities. The Platform also recommends that the definition of biodiversity-sensitive areas for the mandatory biodiversity PAI indicator is extended to areas of high intactness and biodiversity value outside of protected areas. Furthermore, the Platform recommends the ESAs consider the definition of high biodiversity value outside of protected areas in accordance with the renewed (EU) 2018/2001. The Platform further encourages the ESAs to consider including a definition of biodiversity value in oceans, seas, coasts and inland water ecosystems, which EU 2018/2001 does not contain."

Emissions to water: "Tonnes of emissions to water generated by investee companies per million EUR Invested. The Platform also suggests looking into possible alternative indicators such as water ecotoxicity as optional indicators."

The Platform also commented on the extent to which data providers can currently assess the different principle adverse impacts. Dr. Cojoianu advised that: "With respect to biodiversity, data vendors have the ability to map company location and biodiversity controversies to areas of biodiverse sensitivity and thus are able to provide better estimate coverage for PAI 7, as a result of bringing together different data sets. Companies themselves do not yet too frequently report operations in or near biodiverse sensitive areas and the respective impact those operations have on their surroundings. The example data vendor in Table 1 has near 100% available data coverage with this method as do others in the market."

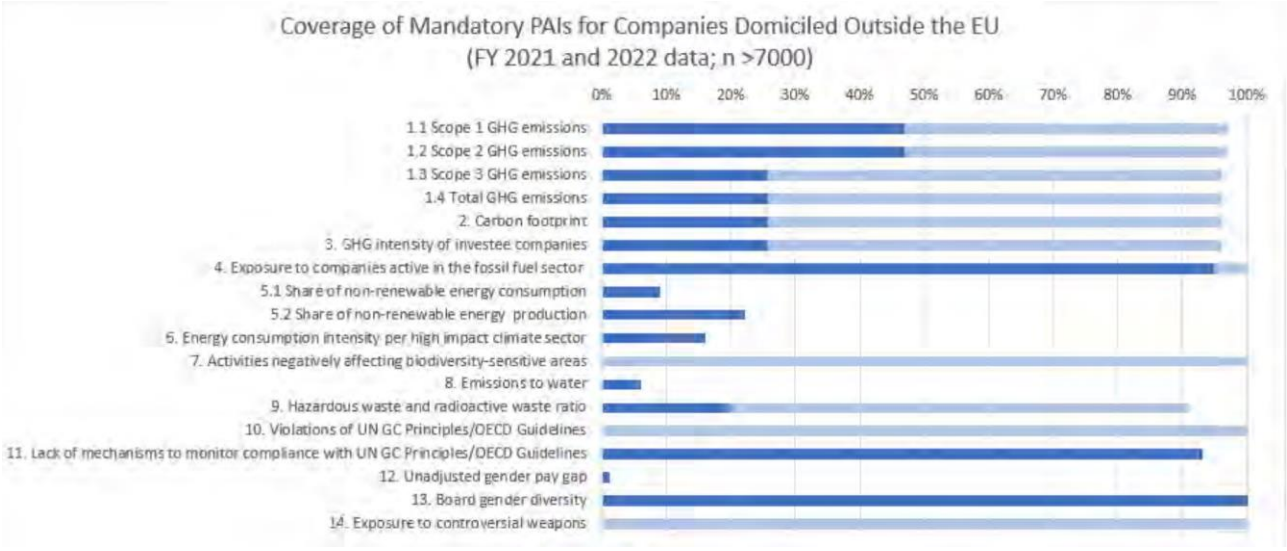

Figure 2: Coverage of mandatory PAIs for Companies Domiciled outside of the EU (FY 2021 and 2022 data, n>7000). Source: EU PSF Response to ESAs (4th July 2023)

ESRS Consultation - Platform Response to the European Commission Call for feedback on draft ESRS delegated act – 7th of July 2023

Through the EU PSF, Dr. Cojoianu and Dr. Viitala welcomed the opportunity to provide input on the draft Commission's Delegated Act on the European Sustainability Reporting Standards (ESRS). These standards are vital for ensuring consistent, comparable, and reliable sustainability-related information in line with the objectives of the European Green Deal, the EU Biodiversity Strategy for 2030 and the EU Climate Law and the Kunming-Montreal Biodiversity Framework. They are of crucial importance in addressing data gaps across the EU sustainable finance framework.

The Platform's response has been based on five key principles:

1. Precautionary principle – disclosure requirements should neither overestimate positive, nor underestimate negative information ("if in doubt, err on the side of the environment"). This principle is considered overarching to protect environmental integrity.
2. Relevance – indicators ought to be meaningful and methodologies accurate.
3. Consistency of ESRS indicators with wider sustainable finance framework (especially the EU taxonomy).
4. Proportionality of the requirements - the reporting burden ought to be evenly distributed among the different players taking into consideration their different capabilities and responsibilities.
5. Applicability – linked to international standards where feasible and taking consideration of implementation hurdles.

The Corporate Sustainability Reporting Directive (CSRD) was introduced on January 5, 2023, introducing an update to the regulations surrounding the disclosure of environmental and social data by companies. Entities

falling under the purview of the CSRD are now mandated to comply with the European Sustainability Reporting Standards (ESRS), which were formulated by the European Financial Reporting Advisory Group (EFRAG), now recognized as an autonomous organization that consolidates input from a diverse range of stakeholders.

The ESRS adopt a "double materiality" approach, necessitating that companies disclose both their impacts on society and the environment, and the financial risks and opportunities that arise from social and environmental challenges. The first standard, ESRS 1 ("General Requirements"), outlines the overarching principles for reporting in accordance with the ESRS without prescribing specific reporting obligations. Meanwhile, ESRS 2 ("General Disclosures") delineates the critical data that must be reported, regardless of the particular sustainability issue in question. All subsequent standards, along with the specific reporting requirements and data points they entail, are evaluated based on their materiality.

Dr. Cojoianu and Dr. Viitala were key contributors to the Platform response to the commission. The advice included the following remarks for the targeted consultation:

“The Platform recommends that the disclosure of biodiversity transition plans should be maintained as mandatory to disclose if impacts are deemed material for the economic activities conducted by the entity (inside-out perspective). Biodiversity plans are a critical input into forward-looking scenarios and modelisation of net zero trajectories and are crucial to the identification and mitigation of adverse impacts on ecosystems and biodiversity. This would also be consistent with Target 15 of the Global Biodiversity Framework agreed upon at CBD COP 15[2] in 2022 (requiring large companies and financial institutions to disclose risks, dependencies, and impacts on biodiversity along their operations, supply and value chains and portfolios) and investor reporting requirements in some EU member states (such as Article 29 of the Loi Énergie Climat).”

In addition, through the Platform, both Dr. Cojoianu and Dr. Viitala recommended the following amendments:

ESRS Commission Proposal	Proposed Change	Short Rationale
15. The undertaking may disclose its transition plan to improve and … 16. e) iii If these impacts are unavoidable, the undertaking may indicate its plans to minimise them. The undertaking may disclose whether and how it has used biodiversity and ecosystems scenario analysis … If the undertaking has used such scenario analysis, it may disclose the following information …	Replace “may” by “shall”	Subject to a materiality assessment, these disclosures should be mandatory since they regard the potential of the undertaking to reduce relevant impacts on ecosystems and biodiversity. The precautionary principle requires them to be disclosed. They are relevant for FMPs and Fis and other stakeholders as they provide information relevant for the undertaking’s business outlook.

[2] CBD COP 15 - Decision adopted by the Conference of the Parties to the Convention on Biological Diversity – official document available at: https://www.cbd.int/gbf

The undertaking may disclose whether ecological thresholds and allocations of impacts to the undertaking were applied when setting targets.		
35. If the undertaking has identified material impacts with regards to land-use change, or impacts on the extent and condition of ecosystems, it may also disclose their land-use based on a Life Cycle Assessment.	Replace "may" by "shall". If considered necessary under a "shall" condition, replace "Life Cycle Assessment" by "life cycle considerations".	Land use and land use changes are the biggest drivers of biodiversity loss and ecosystem deterioration. For many companies, the main land use impact is in the value chain (food production, metal processing, energy/utilities etc.). If material, these impacts need to be disclosed. If there are concerns that no robust LCA method is available, "based on life cycle considerations" could allow for a less technical approach.
Disclosure Requirement E4-3 – Actions and resources related to biodiversity and ecosystems In addition, the undertaking shall: (a) disclose how it has applied the mitigation hierarchy with regard to its actions (avoidance, minimisation, restoration or rehabilitation, and compensation or offsets); (b) disclose whether it used biodiversity offsets in its action plans. If the actions contain biodiversity offsets, the undertaking shall include the following information: i. the aim of the offset and key performance indicators used; ii. the financing effects (direct and indirect costs) of biodiversity offsets in monetary terms; and; iii. a description of offsets including area (…)	iiii. offsets may only be utilised as a last resort after demonstrating all other mitigation measures have been utilised, and cannot be counted towards attaining a biodiversity targets set by the undertaking.	It should be explicit that biodiversity offsets represent a ´last resort´ measure that is taken to limit any negative impacts on biodiversity following the full application of the mitigation hierarchy. Therefore, it is proposed that offsets only be used by the undertaking to describe how it is limiting impact or doing no significant harm, and not as part of a target set for biodiversity.
E4-5: AR 30. With regard to life cycle assessment for land use, the undertaking may refer to the "Land-use related environmental indicators for Life Cycle Assessment" by the Joint Research Center.	Replace the reference to the "Land-use related environmental indicators for Life Cycle Assessment" report (JRC ,2016) by the more	ESRS should refer to the most recent relevant study by the JRC.

	recent JRC publication on the topic: Damiani et al, 2023: Critical review of methods and models for biodiversity impact assessment and their applicability in the LCA context; Environmental Impact Assessment Review, Vol. 101, July 2023	
Current definition for Natural resources is: "Natural assets (raw materials) occurring in nature that can be used for economic production or consumption."	Natural Resources: A feature or component, including assets of the natural environment that is of value in serving human needs, e.g., raw materials, soil, water, plant life, wildlife, etc. Some natural resources have monetary value defined in the markets (e.g,. timber) while others do not have market value (e.g. scenic beauty), and their economic value is defined through indirect measures (e.g., willingness to pay, hedonic prices).	The definition is too narrow in scope and concentrates only on economic production and consumption. The proposed EEA definition reflects a broader concepts that is more appropriate.

Table 3: Suggested amendments for the ESRS

Project Partners

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