The EU Taxonomy

Gold Standard or Institutionalised Greenwashing?

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Abstract

The transition towards a sustainable, low-carbon and resource-efficient global economy will require huge amounts of investments, and private finance is increasingly singled out as the solution. But in contrast to the increased reliance on finance to solve the climate crisis stands a number of deep-seated challenges in the so-called 'sustainable finance' system, where short-term investment horizons and poor sustainability reporting continue to prevent the effective allocation of private assets to green projects.

In response, the EU Taxonomy was adopted on 18 June 2020 as the world's first official system to define and classify a list of green investments. By creating a common reporting language for companies, investors and consumers, the tool is designed to increase transparency, protect against greenwashing, and steer capital to sustainable activities. The so-called 'gold standard' for sustainable investments has been given key role in improving practices on the continent and is already influencing the development of similar standards around the world. This highlights that, what Europe decides to label as 'green' has consequences way beyond its borders and can establish long-lasting path dependencies in the global governance of finance and sustainability.

In this thesis, I explore the Taxonomy's potential for changing norms for sustainable finance. With climate change governance as point of departure, I assess the strengths and weaknesses of the Taxonomy against five normative institutional strategies. I pay particular attention to how the tool's normative standing was affected by the Complementary Climate Delegated Act (CDA), which defined gas and nuclear power as 'green' under the Taxonomy framework. The case study is explored through qualitative methods, by means of document analysis and 13 interviews with expert representatives from key stakeholder groups to the Taxonomy.

I argue that, by establishing a common language and reporting methodology, the Taxonomy held initial promise in terms of promoting discursive shifts, defining and promoting norm-related identities, mobilising pride and shame, mobilising transnational networks and shifting forums. Its status as the 'gold standard' was severely hampered by the CDA however, which triggered powerful acts of de-legitimation by key stakeholders against what has been termed the single biggest act of greenwashing in history. The Act left the normative potential of the Taxonomy severely reduced, limiting its normative potential to the promotion of 'weak' rather than a 'strong' form of sustainability and alienated climate scientists and civil society along the way. Its primary road to influence now depends on its ability to ratchet up climate ambition and win back legitimacy over time, whereby a norm for truly sustainable investing might gain ground.

List of Acronyms

CDA	Complementary Climate Delegated Act
CSRD	Corporate Sustainability Reporting Directive
DNSH	Do No Significant Harm
EMH	Efficient Markets Hypothesis
ESG	Environmental, Social and Governance
EU	European Union
FSB	Finance Stability Board
GFANZ	Glasgow Financial Alliance for Net Zero
GHG	Greenhouse gas
HLEG	High-level Expert Group on Sustainable Finance
IEA	International Energy Agency
IIGCC	Institutional Investors Group on Climate Change
IPCC	Intergovernmental Panel on Climate Change
IOSCO	International Organization of Securities Commission
JRC	Joint Research Centre
NDC	Nationally Determined Contributions
NFRD	Non-Financial Reporting Directive
PRI	Principles for Responsible Investment
PSF	Platform on Sustainable Finance
RRF	EU's Recovery and Resilience Facility
SDG	Sustainable Development Goals
SFDR	Sustainable Finance Disclosure Regulation
TCFD	Task Force on Climate-related Financial Disclosures
TEG	Technical Expert Group on Sustainable Finance
TSC	Technical Screening Criteria
TR	Taxonomy Regulation / Regulation (EU) 2020/852
UNFCCC	United Nations Framework Convention on Climate Change
UNPRI	United Nations Principles for Responsible Investments
WWF	World Wildlife Foundation

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Contents

1.0 Introduction

The last years have seen an increased use of climate-related transparency tools as means to accelerate the green transition. This thesis seeks to contribute to the debate around their effectiveness by exploring the case of the EU Taxonomy. The overall objective is to provide a deeper understanding of the tool's normative potential, explored through the research question:

What is the EU Taxonomy's potential for changing norms for sustainable finance?

There is little doubt that the transition towards a sustainable and low-carbon economy will require significant investments. The EU estimates that reaching their 2030 climate and energy targets will require €1 trillion of investments over the next decade (European Commission [Commission] 2020) and there is a growing recognition that the public purse cannot fill this funding gap alone, whereby the mobilisation of private finance has become a key political priority (Chiapello 2020). But in sharp contrast to the increased reliance upon private finance to steer capital to the green transition stands a number of deep-seated challenges in the so-called 'sustainable finance' system. Beyond skewed incentive-structures and short-term investment horizons – which continue to favour conventional assets over low-carbon alternatives (Intergovernmental Panel on Climate Change [IPCC] 2022) – is the lack of a common understanding of what a sustainable investment is.

The green finance sector's emergence was characterised by the lack of overarching regulation, which resulted in a plethora of competing definitions, indicators and reporting methodologies. A 2017 estimation by the Task Force on Climate-Related Financial Disclosures (TCFD) found that there were no less than 400 sustainability-themed disclosure regimes globally (TCFD 2017), leaving disclosers with ample manoeuvring space in defining what a green investment is and exposing the system to greenwashing: "the practice of making misleading claims about the environmental benefits of a product or of a company's policies" (EU Technical Expert Group on Sustainable Finance [TEG] 2020, 14). As a result, investors are hampered in their attempts to identify truly sustainable assets from the vast pool of self-proclaimed – or labelled – sustainable projects, leaving the subsequent 'greening' of the financial system ineffective.

In comes the EU Taxonomy, the world's first official system to define green investments. Just like a dictionary, it allows market actors to look up whether an economic activity is classified as sustainable, and under what conditions. By creating a common reporting language for companies, investors and consumers, the Taxonomy is designed to increase transparency, protect against greenwashing, and steer capital to sustainable activities (Commission 2021a).

The so-called ‘gold standard’ has been termed the crown jewel of the EU’s sustainable finance strategy, which makes it a significant variable in the relative success or failure of EU’s ambitious climate objectives, given their reliance on private finance.

But the degree of its success will also be felt elsewhere. The EU has a long history of exporting regulatory standards to the rest of the world and the Taxonomy’s scope and design has already served as an inspiration for green finance taxonomies in other jurisdictions. This serves to highlight that, what Europe decides to label as ‘green’ has consequences way beyond its borders and can establish long-lasting path dependencies in the global governance of finance and sustainability. This thesis sets out to understand the promise and perils of the novel tool, discussing whether it can become the gold standard for sustainable finance by assessing its normative potential.

1.1 Can finance be sustainable?

Underpinning the belief in private capital as a means to accelerate climate action lies the assumption that finance can in fact deliver sustainability. Proponents of financial solutions to climate change see private markets as powerful untapped resources that can be mobilised for the greater public good (Zadek 2019). The alignment of financial flows with sustainability objectives is here perceived as a ‘win-win solution’ and the longer time horizons of climate change as a useful antidote to short-term investing and the subsequent volatility of the global financial system. Optimists agree, in other words, that sustainable development and financial stability are mutually reinforcing policy agendas (Zou et al. 2015; Carney, 2015).

On the other hand stand the more critical voices. A first group is found in eco-socialist literature, who remain sceptical towards the idea that climate-finance is a match made in heaven. They maintain that finance is unable to provide credible solutions to the world’s environmental challenges by tracing the problem to the capitalist system and its call for exponential economic growth, which is seen as incompatible with the sustainable use of natural resources and effective climate action (Fletcher 2012; Klein 2014). Another line of critique is directed, not towards finance as a means, but the relative ineffectiveness of its current application to accelerate the transition towards a more sustainable economy (Chiapello 2020; Gabor 2020). These scholars typically advocate for stricter regulation – that is, increased transparency and a restructuring of incentives – to foster a truly sustainable finance sector.

This thesis will argue in line with the latter group of scholars, maintaining that finance can be

powerful means for achieving positive social transformation as long as it operates in the right regulatory environment. Recognising the complex relationship between for-profit motives and sustainability objectives, I withhold an understanding of 'sustainable finance' as a highly interactive and contested process that is filled with contradictions and limitations. I moreover stress that sustainable finance policies be seen as a parallel – rather than primary – governance strategy, to be complemented with improved regulation of the real economy and high carbon prices for optimal impact to secure improved sustainability outcomes (Haas & Unmüßig 2020).

Having established the prospects of sustainable finance regulation, it is important to raise questions about policies' underlying motives, whether that is the improved function of financial markets, an ambitious sustainability agenda, or a combination of the two. Early connotations of 'sustainable finance' was typically limited to the mere integration of "environmental, social and governance (ESG) factors in financial decisions" (High-Level Expert Group on Sustainable Finance [HLEG] 2017, 12). This speaks to the need of making finance more attuned to a variety of risk and to prevent sustainability-induced market disruptions, i.e., stabilising global finance.

With time however, the concept came to accommodate a second imperative, namely the role of finance in supporting a sustainable economy. This reading – which can referred to as 'finance for sustainability' – understands sustainable finance against its ability to foster sustainable development in line with the Sustainable Development Goals (SDG) and the Paris Agreement (Migliorelli 2021), which entails a significant diversion from early connotations. This thesis will refer to *sustainable finance* accordingly, that is, "finance to support sectors or activities that contribute to the achievement of, or the improvement in, at least one of the relevant sustainability dimensions" (Migliorelli 2021, 2), the focus here being on the environmental component. This establishes the sustainability agenda as sustainable finance's primary objective, which includes – but is not restricted to – the stabilisation of global financial flows.

In recognition of the market's heterogeneity, I will henceforth refer to the *green finance sector* when speaking of the actors that engage in market exchange of what Migliorelli (2021) terms 'labelled sustainable finance', that is, "labelled green, social and sustainable financial securities, products or services" (p. 2). Whilst green finance and sustainable finance are markedly different in scope – the former considering the 'environmental' in ESG exclusively and the latter accommodating all of them (HLEG 2018) – the phrase is nonetheless chosen to avoid terminological confusion with the normative 'sustainable finance' concept adopted. It is not be read as a normative conclusion of the sector's sustainability.

1.2 Research scope

Restricting myself to research the Taxonomy Regulation (TR) in relation to the Complementary Climate Delegated Act (CDA), this thesis situates the policy instrument in climate change governance, a perspective still little represented in the burgeoning literature about the Taxonomy. Adopting a social constructivist approach to institutionalism, it assesses the tool's strengths and weaknesses against five normative institutional strategies identified by Mitchell and Carpenter (2019), that is, its ability to: 1) Promote discursive shifts; 2) identify and promote norm-related identities; 3) mobilise pride and shame; 4) mobilise transnational networks; and 5) shift forums to marginalise veto players. Where the fourth advocates the formulation of a shared normative vision with strategic non-state partners to anchor a new norm in target audiences, the fifth suggests avoiding institutions that are prone to deadlock to unleash a more ambitious agenda amongst norm-leaders.

The decision to focus on normative institutional strategies is based upon the Taxonomy's reliance on norms to induce change. Rather than providing incentives for investing sustainably, the tool mandates targeted actors to disclose according to a set standard and is thus best understood as a transparency tool, where the provision of market information is relied upon to facilitate behavioural change (Fung, Graham & Weil, 2007). By distinguishing sustainable – or normatively appropriate – investments from their conventional counterparts, it shifts the focus from "costs and benefits" towards "right and wrong" in line with norm-based policy design (Mitchell & Carpenter 2019), hoping that the additional information will trigger corporate aspirations to prize themselves with Taxonomy-alignment. A systematic assessment of its promise and perils in this undertaking seems appropriate, especially since there are few academic writings about its normative potential thus far, with a few notable exceptions (Fuest & Meyer 2022; Kooths 2022).

The thesis will pay particular attention to the adoption of the CDA, which labelled gas and nuclear energy as green in the Taxonomy framework. As the Act spurred much public debate and stakeholder opposition, it makes up an interesting case study for a discussion of institutional normative strength. This research will also contribute therefore, to the discussion about the CDA and its normative impact on the Taxonomy.

This research contributes to vast academic field of regime effectiveness. I will here rely on the works of Young (2001), who builds his approach to effectiveness on the common distinction between output, outcome and impact. In his typology, *output* refers to new regulations, policy

instruments, or compliance mechanisms; *outcome* to "the behaviour of various actors subject to the regime's regulatory provisions"; and *impact* to "changes in biogeophysical conditions and in the problems that lead to regime formation" (Young 2001, 114). Since the Taxonomy can itself be considered an output, and that any measurement of impact on the environmental state resulting from a Taxonomy-induced growth in green investments is premature, I will focus on its *outcome*: Whether the Taxonomy has the potential to alter targeted actors' behaviour.

1.3 Thesis outline

Chapter one has given an introduction to the thesis topic and theoretical point of departure, as well as the research question and scope of the thesis. Chapter two will provide an overview of the 'sustainable finance' landscape and present the case study, outlining the policy design of the EU Taxonomy. Chapter three presents the theoretical framework of the thesis and accounts for how the Taxonomy has been received in academic literature thus far. In chapter four, the thesis' methodology is presented, accounting for the data sources used, ethical considerations and limitations. Chapter five hosts the analysis, which is structured after the normative institutional strategies' typology, looking at the Taxonomy Framework and the CDA respectively. The academic contribution of the thesis is summarised in chapter six, the conclusion.

2.0 Sustainable Finance and the EU Taxonomy

This chapter outlines the governance context in which the green finance sector emerged and traces its expansion from market niche to mainstream. It goes on to present the case study of this thesis – the EU Taxonomy – against the backdrop of the EU Action Plan on Sustainable Finance and its sustainable finance approach. Finally, it outlines the design, scope, and legal standing of the policy instrument itself.

2.1 The governance context

The emergence of the green finance sector can usefully be understood against three major trends in climate change governance: 1) the increased reliance on non-state actors, 2) a move from top-down to bottom-up governance and a turn towards 'soft law' approaches, and 3) the increased dominance of market-based solutions. These are outlined below to provide the contextual backdrop against which the Taxonomy emerged.

Firstly, non-state actors are increasingly targeted by – but also involved in shaping – climate change policy. Following the 1988 establishment of the Intergovernmental Panel on Climate Change (IPCC) – which coordinates the scientific foundations of human-made climate change – the latter part of the 20th Century saw an acceleration in international regulations and treaties. The 1992 United Nations Framework Convention on Climate Change (UNFCCC) established the basic legal framework for climate change cooperation, which would later give birth to the Kyoto Protocol and the Paris Agreement. Greenhouse gas (GHG) emissions continued to grow exponentially despite the political momentum however, and recent estimates show that we are heading towards 2.7 – 3.2°C warming, which is way beyond the 1.5 – 2°C objective of the Paris Agreement (IPCC 2022). The slow progress of UNFCCC negotiations has spurred actors to look outside the traditional multilateral arena for climate action. Such transnational climate governance relates to activities undertaken by "stakeholders other than States that are party to the UNFCCC" (Chan, Brandi & Bauer 2016, 240). This trend is reflected in the proliferation of climate action initiatives arising from and/or targeting non-state actors like cities, corporations or investors. Today then, efforts to reduce emissions and accelerate the transition to a low-carbon economy occurs at a variety of both formal and informal levels of governance.

Secondly, the climate change domain has accommodated a shift from top-down to bottom-up governance structures (Sabel & Victor 2017). Where the first approach entails a joint division of emission reduction targets according to the global carbon budget – exemplified in the

mandatory approach of the Kyoto Protocol – the latter allows states to set their own targets – as with the Paris Agreement's nationally determined contributions (NDCs). This involves greater flexibility on behalf of contributors, which in turn reduces the need for punitive, or "hard" enforcement measures. The shift towards bottom-up climate governance was hence followed by an increased focus on "soft" compliance mechanisms like international standards, codes of conduct or self-regulation schemes, where consequences of non-compliance were of a normative rather than material character (Weiss & Wilkinson 2018). Alongside the proliferation of non-state actors then, climate governance has also gone through a paradigm shift with regards to approach – where 'hard' top-down policy structures are replaced by 'soft' bottom-up ones.

The third trend relates to the increased reliance on market-based solutions to climate change, epitomised in the idea that emissions can be priced and traded in a 'cap and trade' system (Bulkeley & Newell 2015). Market-based solutions are typically promoted on the basis of the alleged efficiency and flexibility of markets compared to state-led regulatory practices. Carbon markets are for example endorsed as a means to lower the transaction costs of emission mitigation, relying on private actors to reduce emissions wherever it is cheapest to do so (Bulkeley & Newell 2015). The same logic is found in what Chiapello (2020) has termed the 'financialization' of climate policy, referring to how the relative significance of the finance sector to that of the real economy has accelerated financial solutions to climate change. Today, she argues, "public policies are designed to capture the strengths of private finance, to engage its actors, and are also based on its techniques and forms of reasoning" (Chiapello 2020, 22). Alongside the increased emphasis on non-state actors and soft measures then, climate change governance is increasingly conceptualised within – and perhaps cognitively restricted to – the realm of markets (Bulkeley & Newell 2015).

Together, these three governance trends have aided the emergence of the green finance sector and cemented it as a key solution to climate change in international policy circles to such an extent that it has been termed "the new panacea" (Chiapello 2020, 27).

2.2 A plethora of actors

There has over the last 30 years been a remarkable change in the attitudes of business towards their perceived role in broader society. The growing international dedication to prevent human degradation of the environment that started in the 1960s quite naturally put the spotlight on businesses and their impact on the natural world, slowly cementing the idea that business had

a moral obligation to do good besides generating profits. As a result, businesses found themselves facing increased pressure to practice corporate social responsibility, which soon developed to cover a broad spectra of 'responsible' business practices, the latest iteration of which calls for the consideration of ESG factors in business operations. This development later gave rise to multiple concepts accounting for the relationship between financial flows and sustainability objectives, including socially responsible investing, impact investing and a focus on negative externalities (Migliorelli 2021).

The market for labelled sustainable finance products took off in the 2000s, as evident in the growth of the green bond market – that is, "any type of bond instrument where the proceeds will be exclusively applied in order to finance (…) Green Projects" (Yang 2021, 3) – which exceeded USD 1,000 billion at the end of 2020 (Yang 2021). Just as the appetite for such products grew, so too did the number of initiatives that attempted to create common ground for the ever-expanding green finance sector. These included the 1992 United Nations Environment Programme's finance initiative, the UN-backed launch of the Principles for Responsible Investment (UN PRI), and the establishment of the Climate Bonds Initiative (Chiapello 2020).

A clear international momentum was visible in the months leading up to COP21 in Paris. In September 2015, Mark Carney[1], the Governor of the Bank of England and Chairman of the Finance Stability Board (FSB), gave a landmark speech on the financial risks of climate change (Carney 2015). Soon thereafter, the FSB launched the TCFD, a framework to assess corporate climate risk and opportunities. That same year, the UN General Assembly adopted the SDGs, which stressed the importance of private finance mobilisation specifically (SDG 17). Article 2.1c of the close-to universally adopted Paris Agreement likewise stated the objective to make "finance flows consistent with a pathway towards low greenhouse gas emission and climate-resilient development" (UNFCCC 2015, 2). By 2015 then, the idea of 'sustainable finance' had made its way to the top of the international political agenda.

In the post-Paris years, a large number of actors became involved in the regulation of the green finance sector. Public banks and multilateral development banks accelerated their use of climate action plans and sustainability strategies, as exemplified by a range of sustainable finance tools launched by the European Investment Bank and the establishment of a central bank network – the Network for Greening the Financial System (Larsen 2021). Financial institutions also took a central role in creating momentum, as visible in the establishment of

[1] Newly appointed UN Special Envoy on Climate Action and Finance.

the ClimateAction100+ initiative, the Institutional Investors Group on Climate Change (IIGCC) and the UN-convened Glasgow Financial Alliance for Net Zero (GFANZ). Eventually, governments also joined the race to coordinate the mobilisation of private sustainability capital. With the creation of the China-initiated G20 working group on sustainable finance in 2016, it became a "key issue in policymaking and intergovernmental coordination" (Larsen 2021, 359).

This section has shown that a green finance sector emerged in in the 90s, grew throughout the 2000s, and went full-blown mainstream around 2015. Its novel history is characterised by a vast number of initiatives stemming from a wide range of governance actors, resulting in a broad range of standards and principles (Migliorelli 2021). It is against this backdrop then, that the EU initiated a comprehensive strategy on 'sustainable finance'.

2.3 The EU Action Plan on Sustainable Finance

In recognition of the growing green finance sector, the EU Commission appointed a High-level Expert Group on Sustainable Finance (HLEG) in 2016 that was tasked with submitting a report on the scale and dimensions of challenges and opportunities of 'sustainable finance' on the one hand, and to recommend a comprehensive set of reforms to the EU financial policy framework on the other (Trippel 2020).

HLEG's final report was published in January 2018. It argued that the reorientation of financial flows towards long-term, sustainable projects would increase financial stability, but pointed also to a number of actions points for financial markets to re-connect with the real economy to support the transition to a more resource-efficient and more circular economy (HLEG 2018). Among the proposals put forward in the report was (1) to establish a European standard for green bonds; (2) to improve the corporate sustainability disclosure framework; and (3) to establish of "a classification system, or 'taxonomy', to provide market clarity on what is 'sustainable'" (Commission 2018a, 1).

Adopting a sustainable finance strategy was a key priority of the Commission's Capital Markets Union Action Plan, but was also seen as a key step towards implementing the Paris Agreement and the EU's Agenda for sustainable development (Commission 2018a). Following the HLEG's final report therefore, the Commission swiftly proceeded to adopt the *Action Plan on Sustainable Finance*, which set out eight priority actions that would embed

sustainability in Europe's financial system according to three main objectives (Commission 2018b, 2):

1. Reorient capital flows towards sustainable investment, in order to achieve sustainable and inclusive growth;
2. Manage financial risks stemming from climate change, environmental degradation and social issues;
3. Foster transparency and long-termism in financial and economic activity.

The Taxonomy – a sustainable finance standard designed to increase transparency, prevent greenwashing, and steer capital to sustainable activities (Commission 2021a) – is often portrayed as the crown jewel of the Action Plan. It does not stand alone however but is accompanied by a range of complementary proposals. With regards to disclosure, the recent revisions to the Non-Financial Reporting Directive (NFRD) – now revised as the Corporate Sustainability Reporting Directive (CSRD) – is set to deliver a more comprehensive sustainability reporting framework for corporations (Commission 2023b) and the Sustainable Finance Disclosure Regulation (SFDR) provides the same for financial products and entities. By 2019, Member States had agreed on all proposals in the sustainable finance roadmap, the Taxonomy included (Trippel 2020). What then, does the EU mean by 'sustainable finance'?

2.4 EU's sustainable finance approach

In the EU policy context, sustainable finance is understood as "finance to support economic growth while reducing pressures on the environment and taking into account social and governance aspects" (Commission 2023a). Their approach can be traced back to HLEG's (2018) final report, which stressed that:

> Sustainable finance is about two imperatives. The first is to improve the contribution of finance to sustainable and inclusive growth as well as the mitigation of climate change. The second is to strengthen financial stability by incorporating environmental, social and governance (ESG) factors into investment decision-making (p. 6).

Similarly to Migliorelli (2021), the EU recognises the twofold imperative of sustainable finance, but stress that it must contribute to economic growth specifically. It reflects no indication of a conflict of interest, in other words, between economic growth and sustainable development. The HLEG (2018) goes on to point out that sustainable finance involves "a commitment to the longer term, as well as patience and trust in the value of investments that need time for their value to materialise" (p. 9), reflecting a specific recognition of the need to

move beyond short-term financial horizons in order to support sustainable economic development. Another final aspect involves that of ESG risks:

> Sustainable finance also encompasses transparency on risks related to ESG factors that may impact the financial system, and the mitigation of such risks through the appropriate governance of financial and corporate actors (Commission 2023a).

This reflects a specific recognition of the need for proper assessment and integration of ESG-related risk through transparency measures on the one hand, and the means – i.e., regulation – to secure this objective on the other. In sum then, the Commission (2022c) moves beyond the initial and narrow approach to sustainable finance by adding the imperative of market's contribution to better development, and by specifically emphasising the need for long-term value creation and risk assessment.

2.5 The Taxonomy Regulation

The Taxonomy Regulation (TR), or Regulation (EU) 2020/852, entered into force on 18 July 2020 and has a legal basis, meaning that targeted subjects failing to implement EU legislation risk legal proceedings (Buonanno & Nugent 2013). The TR is a parent act that establishes the purpose and general structure of the Taxonomy. The development of environmental performance thresholds – or so-called *technical screening criteria* (TSC) – that an activity must comply with in order to be considered green – is delegated to the Commission however, who appointed a Technical Expert Group on Sustainable Finance (TEG) to advise them (Commission 2021a).

Defining sustainable investments

The Taxonomy is a green finance standard in the sense that it provides a common understanding of what is 'green' (Nedopil, Dordi & Weber 2021, 3). The methodology for defining what economic activities should be considered sustainable is outlined in the TR, which identifies six environmental objectives against which investments are to be assessed: 1) climate change mitigation; 2) climate change adaptation; 3) sustainable use and protection of water and marine sources; 4) transitionto a circular economy; 5) pollution prevention and control; and 6) protection and restoration ofbiodiversity and ecosystems (Commission 2021a).

Besides complying with the TSC, an economic activity is only recognized as green if it (i) substantially contributes to one or more of the environmental objectives (ii) without

significantly harming any of the other objectives (The 'Do No Significant Harm Principle' (DNSH)) while (iii) being carried out in compliance with minimum human rights safeguards. That the activity must contribute *substantially*, rather than marginally, is reflected in the TSC. Early testing has shown that only 1-5% of current activities live up to the 'substantial contribution' criteria without harming the other objectives (Commission 2021a).

The TR recognizes two other forms of activities as green. Firstly, *transitional* activities are those "for which low-carbon alternatives are not yet available" (Commission 2021a, 5). Cement manufacturing could for example be classified as a transitional if it best-in-class in terms of environmental performance. Secondly, *enabling* activities are those who "directly enable others to make a substantial contribution to the EU objectives" (Commission 2021a, 5), such as renewable energy technologies. The current configuration of the Taxonomy distinguishes between Taxonomy-aligned, or 'green', activities on the one hand, and non-classified, or 'grey', activities on the other in an approach often referred to as 'binary'. The green category accommodates low-carbon, transitional and enabling activities alike, reflecting the "dark green" approach of the tool (Commission 2021a).

A transparency tool

The Taxonomy is a transparency policy in the sense that it "mandates access access to precisely defined and structured factual information from private or public sources with the aim of furthering particular policy objectives" (Fung, Graham & Weil, 2007, 25). What then, are the mandatory and voluntary uses of the Taxonomy? From January 2022[2], companies that fall under the scope of the NFDR started their Taxonomy reporting. The Directive applies to large financial and non-financial companies with more than 500 employees, covering some 11 700 listed firms, banks and insurance companies across the EU[3] (Commission 2023b), who are required to disclose on the extent to which their activities are Taxonomy-aligned. The same goes for financial market participants, who are mandated to report to what extent their financial portfolios and products are Taxonomy-aligned (Commission 2021a).

[2] There have been several delays which have pushed the deadline for first disclosures. Companies have only started to report on their Taxonomy-eligibility, that is, whether they are engaged in activities that are covered by the Taxonomy – from January 2022. The disclosure requirements will become more comprehensive with time, requiring full reporting from non-financial companies from January 2023, and financial actors from January 2024

[3] This scope is increased to approximately 50 000 companies under the revised CSRD, according to which reporting is set to start in the financial year 2024 (Commission 2023b)

Companies are required to disclose the share of Taxonomy-alignment of both of their revenue and expenditure. This information is intended to expose to what degree companies profit from Taxonomy-aligned activities (green revenue) today, but also to what degree companies invest in Taxonomy-aligned aligned activities (green expenditure) and are taking steps to get there in the future (Commission 2021a).

Besides the mandatory disclosure requirements, the TR outlines a number of voluntary uses. The Taxonomy can for example guide companies' sustainability transition strategies and indicate what activities will be able to attract green investment in the future. For financial actors, the Taxonomy criteria can be used to screen companies and projects in due diligence processes and assist them in identifying sustainable investment opportunities (Commission 2021a). While these additional uses might become significant, it is important to note that there is "no obligation on companies to have activities aligned with the EU Taxonomy and there is no obligation on investors to invest in Taxonomy-aligned activities" (Commission 2021a, 13).

2.6 Delegated Acts

The development of TSC is carried out in *delegated acts* that are structured after the TR's six environmental objectives. A delegated act is a form for administrative legislation where the Council and Parliament delegates responsibility to the Commission to translate policy principles – here laid out in the TR – into detailed and often highly specialized rules, such as product standards criteria. These acts are not meant to deal with politically sensitive matters, but are typically used for issues of a highly technical nature, and are therefore not subject to a full legislative process. Instead, the Commission is in charge of developing a proposal which is either approved or vetoed in the Council and Parliament (Buonanno & Nugent 2013, 110-111). I will here briefly present the Climate Delegated Act as a backdrop for the subsequent Complementary Climate Delegated Act (CDA), which is the key focus of this thesis.

The first Delegated Act took on the two first environmental objectives – climate change mitigation and climate change adaptation – and was formally adopted on June 3, 2021. The so-called *Climate Delegated Act* introduced the first set of technical screening criteria to define which activities are considered to contribute substantially to these two objectives[4]. It covers the activities of approximately 40% of listed companies in Europe, and the sectors responsible for

[4] A draft version of the Environmental Delegated Act, which covers the criteria of the remaining four environmental objectives, was published earlier this year and is now subject to consultation rounds. It is expected to be finalised early in 2023. The Environmental Delegated Act is beyond the scope of this thesis.

roughly 80% of direct greenhouse gas emissions in the region: energy, forestry, buildings, manufacturing, and transport (Commission 2021a).

The 2021 public consultation on the Climate Delegated Act revealed conflicted opinions about the potential inclusion of gas and nuclear energy in the Taxonomy. This led the Commission to group the two activities under a separate, Complementary Climate Delegated Act (CDA). The CDA was presented in February this year, including gas and nuclear as transitional – i.e., green – activities. The proposal was approved in the Council and Parliament on July 7th. Both Acts are living documents that will continue to evolve over time. The TSC for substantially contributing and transitional activities are to undergo reviews every 5 and 3 years respectively. This in order to reflect the newest science and technological developments on the one hand, and to expand the scope of the Taxonomy by including sectors and activities not yet covered on the other (Commission 2021a).

This chapter has outlined the emergence of the green finance sector and the governacne context in which it came about. It continued to present the EU Taxonomy, showing that it is both a standard and a disclosure tool. How then, can we expect this multi-purpose tool to strengthen norm for sustainable finance? In order to analyse such, we first need to understand how different strands of literature project the Taxonomy's potential impact.

3.0 Literature Review

This chapter will present the theoretical concepts that are used throughout the thesis and situate the Taxonomy in academic literature. It discusses whether finance can in fact be sustainable, and later transparency as a means to achieve this objective. Finally, I present the analytical framework through which the Taxonomy's potential will be assessed – five normative institutional strategies identified by Mitchell and Carpenter (2019).

3.1 Can finance be sustainable?

How one perceives of the green finance sector will determine one's attitude towards the Taxonomy as the means. This section is therefore structured around the question of whether finance can in fact be sustainable, situating the Taxonomy in in its theoretical context.

"Neoliberal expansion"

On the one hand stands the eco-socialist and critical political economy scholars, who maintain that finance is unable to provide credible solutions to the current climate crisis (Fletcher 2012; Klein 2014). Much of this critique can be traced back to what James O'Connor's (1994) calls capitalism's 'second contradiction', that is, "the opposition between the growth imperative and the limited conditions of production (including natural resources) upon which this growth depends" (quoted in Fletcher 2012, 98). From this perspective, the problem lies in the very nature of the capitalist system and its call for exponential economic growth, which is deemed incompatible with the society-wide changes needed to mitigate GHG emissions at the scale necessary (Klein 2014; Fletcher 2012). The essence of this view was poignantly summarised by Kenneth Boulding: "anyone who believes in indefinite growth in anything physical, on a physically finite planet, is either mad – or an economist" (quoted in Liegey & Nelson 2020, 6), emphasising the alleged paradox of 'green growth' policies.

This line of scholars raise particular concern about increased levels of 'financialization' – whereby financial markets have become the central onus that controls "all areas of the economy and life" (Haas & Unmüßig 2020). This is seen as obstructing more transformative policies on the one hand (Fletcher 2012; Chiapello 2020) and to accelerate the commodification of nature on the other, referring to the neoliberal pricing and trading of ecosystem resources and functions, whose inherent value is thereby depreciated to a monetary quantity (Fatheuer, Fuhr

& Unmüssig 2012). Some scholars even criticise our current economic system for turning the climate crisis itself into a speculative financial opportunity, charging neoliberalism for "exploiting the climate crisis as both a marketing opportunity and justification to expand neoliberal markets and regulatory mechanisms" (Fletcher 2012, 108). Important for this context is the latter point, which reflects scepticism against regulation for institutionalising neoliberal values even further. Common for this perspective is the a structural understanding of the problem at hand, which can usefully be understood with reference to collective action problems and the tragedy of the commons.

Unsustainable finance – A tragedy of the horizon

The 'tragedy of the commons' analogy was coined by Garret Hardin (1968), who describes resources like clean air and healthy ecosystems as public goods. In Hardin's tragedy, a collective of herdsmen utilises a commons for animal grazing and each one seeks to increase profits by adding yet another animal to his herd. While individually beneficial, the additional animals result in overgrazing of the land, i.e., collective ruin.

The analogy is frequently used to describe the climate crisis. While no one can be excluded from enjoying the benefits of a stable climate, individual action is disincentivized by the fact that all economic activities generate emissions – making emissions reductions on the scale necessary very costly – but also by unfavourable time horizons due to the time lags between emissions reductions investments and their effects (Hovi, Skodvin & Aakre 2013). Climate change is hereby described as the quintessential *collective action problem*, where "a group benefits from a certain action, but no individual has sufficient incentive to act alone" (Nyborg et al. 2016, 42).

Truly sustainable investments also resemble a public good in the sense that, whereas the monetary returns from such investments fall upon shareholders, they also generate society-wide benefits of a non-monetary nature (Demsetz 1970). Similar to climate change, sustainable finance also suffers from disadvantageous time horizons. Finance's general propensity to seek short-term profitability over long-term returns – so called *short-termism* – is well documented and works in the favour of conventional assets that generally have more short-term risk-return profiles than their sustainable counterparts (HLEG 2018).

So while 'sustainable investing' is costly for the individual actor in the short-term, the sector's collective failure to green itself is likely to accelerate climate change, which threatens not only

individual assets but global financial stability altogether. With clear reference to Hardin's 'tragedy of the commons', Carney (2015) framed sustainable finance as a collective action problem, a 'tragedy of the horizon'. To summarise, ecosocialist and critical political economy scholars focus on the structural challenges to more sustainable investment practices, and since the conflict of interest between economic rationales and sustainability objectives is seen as integral to the capitalist system itself, they see no solution to the problem at hand within the current economic system (Fletcher 2012).

"A win-win solution"

Optimists as to what finance can achieve in terms of accelerating climate action see private markets as powerful untapped resources that can be mobilised for the greater public good (Eccles & Klimenko 2019; Zadek 2019, Zou et al. 2015). The overarching objectives of the climate change- and financial governance agenda are here perceived as mutually reinforcing (Zou et al. 2015), the most dedicated optimists maintaining that profit-seeking actors not only can contribute to halt the harmful practices that are currently threatening the planet's wellbeing, but that there is no way around their contribution: "climate goals can only be realised with a major shift in financing toward low-carbon, climate-resilient assets" (Zadek 2019, 18).

The rationale by which climate and financial objectives are sown together is commonly through the discursive lens of 'risk' (Wright & Nyberg 2015). The term *climate risk* accounts for the risk that climate change poses to financial markets. This involves physical risks on the one hand – i.e., the damages to buildings and infrastructure that is expected from the growing frequency of extreme weather events – and transition risk on the other – i.e., the indirect risks from future regulative, technological, and market responses to climate change (Bruin et al. 2019).

But just as climate change poses a material risk to investors – as evident by IPCC's estimation that limiting global warming to 2°C will strand fossil fuel infrastructure up to a global value of USD 1-4 trillion from 2015-2050 (2022) – so too can that risk allegedly be managed to leverage business opportunities (Wright & Nyberg 2015). The discourse is hence interwoven with the 'business case for sustainability', by which sustainability performance is deemed to correlate with better financial performance (Möslein & Sørensen 2018, 222). Financial opportunities from climate change are deemed to derive, not only from the moral and/or reputational benefits of going green, but also from new jobs and market opportunities, improved competitiveness and innovation. Optimists thereby tap into the well-established discourses on 'green growth'

and ‘win-win solutions’, perceiving no significant conflict of interest between economic growth and sustainable development and downplaying the collective action perspective.

Neoclassical underpinnings

Underpinning this strong belief in market-based solutions is the still highly influential neoclassic economic theory, which rests upon three core assumptions: Firstly, it depicts actors as instrumentally *rational beings*, that is “self-contained individuals with given preferences, whose choice are driven only by the concern for maximizing individual utility” (Vatn 2005a, 2). Secondly, it treats agents’ preferences in constant terms – that is, not subject to change over time – and lastly, it assumes market participants to have full information and zero transaction costs (Vatn 2005b, 204). Extended to finance, the theory holds that markets are inherently efficient in their response to information and allocation of capital, epitomised in the so-called *efficient markets hypothesis* (EMH): “rational investors are driven by profit opportunities when selecting most attractive investments, and investors will provide the optimal level of financing at an equilibrium rate of return corresponding to level of risk” (Ameli et al. 2020, 568).

Since financial markets are perceived as instrumentally efficient in and by themselves, the limited success of markets to green the financial system thus far is commonly diagnosed as an information problem (Linciano, Soccorso & Guagliano 2022; International Organization of Securities Commissions [IOSCO] 2021). The argument goes that, since the green finance sector is highly fragmented, disclosers are left with ample manoeuvring space in themselves defining what a sustainable investment is, which exposes the system to greenwashing (TEG 2020, 14). In contrast to eco-socialist and critical political economy scholars’ focus on structural challenges, theirs is a more narrow and technical understanding of the problem at hand, which can allegedly be amended by harmonising definitions, reporting procedures and methodologies (Martini 2021).

The liberal institutionalist response

In contrast to neoclassical economists, liberal institutionalists believe that the effectiveness of markets is best secured by some sort of government intervention (Mügge 2011). While they might have highly diverging ideas of the suitable level of regulation, they find common ground in their departure from the neoclassical view on rationality: Instead of seeing actors’ preferences as individualist and utility-maximising only, institutionalists believe that they are also shaped

by institutional context (Vatn 2005a). *Institutions* can here be defined as the "rules, regulations (and) standards that in an economy determine the costs of exchange" (Nedopil, Dordi & Weber 2021, 3).

Importantly, liberal institutionalists do not necessarily discard the virtues of markets but recognise the worth of regulation in securing their smooth functioning. Underpinning this position is the assumption that private incentives and public objectives can be aligned as long as they operate in the right regulatory environment (Mügge 2011). The position rejects the critical position that 'sustainable finance' is nothing but an oxymoron, as well as the overly optimistic position that deem markets perfectly able to regulate themselves, holding instead that finance has the potential be sustainable if properly governed. Instead of rejecting structural and informational explanations of the problem issue, liberal institutionalists trace these challenges to the regulation vacuum that characterised the emergence of the green finance sector, discarding the effectiveness of private industry-led initiatives (Martini 2021; Nedopil, Dordi & Weber 2021; Chiapello 2020; Esty & Karpilow 2019). They promote enhanced financial regulation instead, as a means to overcome structural as well as informational challenges.

The emergence of 'sustainable finance' policies raises important questions of whether for-profit motives can be aligned with sustainability objectives. Recognising that the relationship between finance and sustainability is filled with contradictions and limitations, this thesis will argue in line with liberal institutionalists, that finance can be sustainable *if* progressively regulated. This perspective accommodates a multi-faceted understanding of the problem issue – recognising that there are structural, informational, and regulatory challenges to overcome in order to make finance sustainable. With the risk of simplifying a complex policy nexus, I attempt to withhold an understanding of 'sustainable finance' as a highly interactive and contested process throughout the thesis, adopting Migliorelli's (2021) definition of sustainable finance as "finance to support sectors or activities that contribute to the achievement of, or the improvement in, at least one of the relevant sustainability dimensions" (p. 2).

I maintain that sustainable finance regulation is an important strategy that does not stand in conflict with a broader objective of 'definancialization'. Improving the function of – and altering the perception of 'value' to accommodate sustainability factors alongside monetary ones in – financial markets can arguably be combined with a progressive politics that refrains from 1) making financial markets the only solution to sustainability challenges, and 2) turning ecological resources and functions into tradeable commodities. I hereby stress that sustainable

finance policies be seen as an important parallel – rather than primary – governance strategy, which should work in a complementary fashion to improved regulation of the real economy and high carbon prices for improved sustainability outcomes (Haas & Unmüßig 2020). How then, can this objective best be achieved by means of regulation?

3.2 Transparency as a means

This section takes transparency policies – which the Taxonomy is an example of – as its point of departure to account for how its specific policy design has been received in academia.

"Transparency as the solution"

Transparency has become a common response to a variety of environmental challenges and is increasingly favoured over enforced standards of pollution (Florini 1998). With the term *targeted transparency*, Fung, Graham & Weil (2007) refer to policies that "mandate access to precisely defined and structured factual information from private or public sources with the aim of furthering particular policy objectives" (p. 25). The Taxonomy provides a standard for green investments and mandates corporate disclosure with an aim to further a set of environmental objectives and can hence usefully be understood as a targeted transparency policy.

Transparency's underlying theory of change is one of market optimization: By improving the availability of information, investors and consumers are believed to make informed choices. Just like the Taxonomy does not mandate certain investments, transparency policies refrain from providing clear guidance to targeted actors about what action to take but employs communication as their primary vehicle for change (Fung, Graham & Weil 2007, 16). Given these specific traits, how has the Taxonomy – and transparency policies more generally – been perceived?

"Theoretically unfounded"

A first line of critique targets the theoretical foundation of transparency tools in the climate-finance nexus (Ameli et al. 2020). At the very heart of such policies' rationale stands the assumption that the exposure to climate risk information will trigger investors "(i) to move away from carbon-intensive assets to reduce risks and (ii) to move into low carbon opportunities to benefit from the enhanced market and value of low-carbon investments" (Ameli et al. 2020,

567). They assume, in other words, that markets will respond rationally to information and provide an optimal allocation of capital in line with neoclassical economic theory.

This school criticises the latter for exaggerating markets' inherent efficiency, leading them to question the effectiveness of policies based on such. For instance, Ameli et al. (2020) argue that since "the EMH is unsupported by either theory or evidence: it follows that transparency alone will be an inadequate response" (p. 565). Hall, Foxon & Bolton (2017), specifically warn against founding climate and energy policies in the EMH since they will not pay sufficient attention to structural and behavioural aspects of investing practices. The latter critique was poignantly crystallised by John Maynard Keynes, who held that "nothing is more suicidal than a rational investment policy in an irrational world" (quoted in Friedman, Schwartz, & Bernstein, 1965). Conclusively then, these scholars challenge what they deem an exclusively informational understanding of the problem at hand and the theoretical assumptions of transparency policies.

"Transparency co-opted"

In contrast to liberal institutionalists, critical political economy scholars do not see transparency policies as an undisputed good. Instead, they emphasise transparency's relational and normative dimensions, revealing its intrinsically political nature (Gupta & Mason 2014). They remain particularly sceptical towards related processes of standardisation, that "by specifying particular forms of data collection, recording, and analysis (…) act as engines for generating knowledge about products, processes, and people" (Dunn 2005, 184). According to these accounts, defining sustainable investments is a highly political act, which entails a critical judgement about a risk as well as a delegation of responsibility (Bulkeley & Newell 2015, 37). Standards and disclosure tools are not seen as intrinsically good, nor bad, but powerful political instruments of knowledge generation that can be manipulated by powerful vested interests.

Where transparency used to serve the weak in raising the accountability of the powerful, critical scholars argue that it is increasingly controlled by corporate- and state interests, where it risks reproducing rather than disrupting "socially and ecologically harmful concentrations of public and private power" (Gupta & Mason 2014, 10-11). They remain sceptical towards the emancipatory potential of transparency, in other words, since they fear *regulatory capture*, that is, where "regulated firms have (…) made war on the regulatory agency and won the war, turning the agency into their vassal" (Posner 2013, 49). It is consequently important to ask whether transparency is adopted to improve or avoid state-led mandatory regulation (Gupta

2008). Others similarly fear that the reliance on transparency might in fact exempt "the finance sector itself from the need for other regulatory actions beyond disclosure (Ameli et al. 2020, 567), preventing more substantive regulation from taking hold.

There are still few critical academic accounts of the EU Taxonomy specifically. One example is found in Slootweg (2022), who points out that, since the Taxonomy is designed to inform decision-making on significant investments, it is likely to interfere with powerful vested interests, exposing the tool and related decision-making to "lobby, power play, or outright corruption" (p. 99). Without dismissing the tool's usefulness as a whole, Slootweg (2022) shows how the Taxonomy – and the CDA specifically – has been caught up in harmful political power play in the process of defining what a sustainable investment is, ultimately paying greater attention to the normative conflicts of knowledge generation and the unequal distribution of power therein. This school conclusively fears that transparency's emancipatory reputation will steer attention away from its potentially manipulated content, for "there is nothing that cannot be corrupted, nothing good that cannot be transformed into something bad" Monbiot (2022).

"A lack of incentives"

Liberal institutionalists are generally positive towards transparency, only questioning such policies insofar as they do not deliver full – or satisfactory levels – of transparency (Gupta & Mason 2014). They have somewhat different views however, of how preferences are shaped and subsequently also diverging ideas of what policies are best suited to generate transparency.

On the one hand we find new institutional economists like North, who does not depart from the neoclassic perspective in his view of human preferences as static and utility-maximising but recognises that formal institutions backed by the threat of sanctions can serve to alter actors' behaviour (Vatn 2005a, 11). In climate change governance, policies that rely on material incentives is said to operate according to an *interest-based rationale* whereby actors can only be expected to adopt new, more climate friendly behaviour when these choices make sense from an individual cost versus benefits perspective (Mitchell & Carpenter 2019).

Interest-based scholars raises doubts about the Taxonomy's ability to alter the incentive structure for sustainable assets (Baer, Campiglio & Deyris 2021; Claringbould, Koch & Owen 2019). Since the Taxonomy is informational in nature, it can only restructure material incentives indirectly. Whether this proves effective depends upon the existence of *greeniums*, the green premium that is granted to green products and/or firms over their conventional counterparts

(Chiapello 2020). The idea behind green finance is precisely that "the cost of financing green projects will be lower than that of brown projects, so that agents are encouraged to invest in green" (Chiapello 2020, 26).

Whether or not the greenium logic actually works is debated, however. While some scholars expect Taxonomy-aligned projects to benefit financially (Migliorelli 2021) and non-aligned projects to become more expensive (Linciano, Soccorso & Guagliano 2022), others argue that the Taxonomy's Achilles heel is its exclusively green focus, since only a brown Taxonomy[5] is able to dismantle incentives for investing in polluting projects (Chiapello 2020). Irrespective of whether the greenium logic proves effective, interest-based scholars question the Taxonomy's ability to support a rapid transition to a low-carbon economy precisely because it relies on indirect intervention and nudging rather than direct monetary incentives (Baer, Campiglio & Deyris 2021).

Incentives to invest sustainably may also derive from the legal nature of a policy tool, whereby the interest-based perspective stress the need for potent enforcement measures (Fung, Graham & Weil 2007). Compared to the previous sustainability reporting regime that was characterised by a range of voluntary standards and disclosure tools, the Taxonomy enshrines mandatory non-financial reporting in EU law, judicially enabling potent enforcement. But while corporations are mandated to disclose under the Taxonomy, there is no provision for sanctions against non-compliance, nor is there any obligation to provide third-party verification of disclosures (Commission 2021a). So while the Taxonomy is praised for moving reporting from the voluntary to mandatory sphere, interest-based scholars remain sceptical to its effectiveness since it is not backed by stricter enforcement measures (Baer, Campiglio & Deyris 2021; Chiapello 2020; Ameli et al. 2020). Stressing the structural nature of the problem, interest-based accounts do not expect the Taxonomy to bring about significant change as long as conventional investments remain profitable and the finance sector is driven by short-termism (Claringbould, Koch & Owen 2019).

"The normative promise"

On the other end of the institutionalist scale are social constructivists like Vatn (2005a), who depart from the neoclassic view on human nature. This theoretical strand holds instead, that

[5] The PSF have proposed an "extended taxonomy" that includes a brown taxonomy of ecologically harmful activities. This suggestion is still being discussed.

"man is a construct of society and (…) society is a construct of man" (Vatn 2005a, 25), treating human preferences as subject to external influence and adaptive to changing circumstances. By discarding the belief in pre-defined and stable preferences, he challenges the essentialist view on rationality. Instead of restricting it to a matter of individual cost-benefit analysis where the alternative to rationality is understood as mere irrationality, Vatn (2005a) introduces the idea of *plural rationalities*, arguing that "rational action – that is, reasoned action – may not be driven by just one logic" (p. 121). He does not discredit the importance of incentive structures, but merely adds a set of socially created normative rationalities to the explanation toolbox.

A natural consequence of plural rationalities is that institutions are deemed effective through other means than economic incentives and sanctions only. Social constructivism emphasises instead, the importance of norms and ideas in changing behaviour. A norm can be defined as "a predominant behavioural pattern within a group, supported by a shared understanding of acceptable actions and sustained through social interactions within that group" (Nyborg et al. 2016, 42). This definition contains and normative element on the one hand, and a social element on the other. While the former involves a judgement of what an acceptable behaviour is, the latter speaks to how the perception of what is acceptable is sustained and negotiated through processes of social interaction. Financial actors are according to this line of thinking driven, not only by the motive to maximize profits, but also by a set of institutional requirements – be they policy frameworks, incentive structures, or norms for sustainable investing. This in turn, lowers the need for strict enforcement measures, since actors are expected to comply with regulations due to concerns regarding efficiency, regime norms, interests, and reputation rather than material calculations of costs and benefits only (Chayes & Chayes 1993).

Where interest-based scholars would argue that 'soft' regulation is only effective when the regulation itself lacks in ambition (Downs, Rocke & Barsoom 1996), a norm-based logic would focus on the benefits that can derive thereof. The potential of the Paris Agreement for example, lies not in the ambition of national targets nor in its enforcement approach, but in its ability to attract broad participation (Tørstad 2020). Where interest-based scholars remain sceptical to its institutional design (Bang, Hovi & Skodvin 2016), norm-based scholars maintain that a *least-common denominator outcome*, where initial ambition is lowered to get past the legislative phase, might hold some promise in the long term since it successively strengthens the norm for climate action, which might in turn allow for stricter measures in the future (Tørstad 2020).

The effectiveness of a least-common denominator outcome demands that ambition does in fact

increase over time. The effectiveness of transparency policies likewise depends on their ability to adapt to changing conditions, optimally including mechanisms for periodical feedback and review (Fung, Graham & Weil 2007). Also here might the Paris Agreement serve as an example, whose NDCs are subject to a global stocktake every five years. The so-called ratchet-up mechanism was designed to create a 'race to the top', enable a successive altering of climate target ambitions (Tørstad 2020). Conclusively then, a norm-based approach would not dismiss the Taxonomy its primarily reliance on norms, nor its soft enforcement measures since firms are believed to have a broad set of rationales for complying beyond the fear of sanctions.

Norms vs. incentives

The most dedicated proponents of normative rationales argue that individuals are more concerned with adopting behaviours that are considered appropriate than by undertaking a cost-benefit analysis of different choices (March & Olsen 1989). As an example, Riedl & Smeets (2017) show that investors hold socially responsible funds even if the expected returns are lower than from conventional ones, reflecting that social preferences can at least partially reduce profit-maximising objectives. The financial sector should nevertheless be understood as a particularly hostile environment for the latter, since its very right to operate relies on material cost-benefit analyses. Finance is not only structurally geared towards short-term profits that tend to disfavour low-carbon investments (IPCC 2022), it is also responsive to the current geopolitical context in which a severe energy crisis increases the profitability for carbon-intensive assets (International Energy Agency [IEA] 2022). Norms for sustainable investing currently find themselves in a context dominated by strong material incentives for conventional investing, against which a reliance on normative rationales might be deemed naïve.

But before we dismiss the potential of norms to create change altogether, we must first ask what interest-based theory has brought to the table in terms of collective action solutions? Mitchell and Carpenter (2019) point the fact that thus far, climate change solutions have been dominated by strategies aiming to restructure material incentives. Given that climate change has been on the international political agenda for some 50 years and that a 2022 UN report found that we are currently heading towards 2.5 C° temperature rise (UNFCCC 2022), these attempts are best understood as relative failures. Empirically speaking therefore, interest-based strategies have no right to claim superiority over their norm-based counterparts (Mitchell & Carpenter 2019).

Mitchell & Carpenter (2019) show that an alternative, norm-based governance model has

proven effective in the human security domain, and advocate that the same model be applied to climate change. They do not dismiss the collective action nature of climate change but hold instead that normative strategies have particular promise in instances where the nature of the problem or the constellations of interests blocks the effective use of interest-bases strategies. In these situations, shifting the conversation from the material 'costs vs. benefits' to normative considerations of 'is vs. ought' can allegedly strengthen the collective understanding of appropriate behaviours and push the agenda forward. Their argument is echoed by Nyborg et al. (2016), who hold that normative rationales make a significant difference in areas where formalised institutions are unable to enforce a collectively desired outcome.

To conclude, this thesis will adopt a social constructivist institutionalist approach in line with Vatn (2005a), whereby actors' preferences are deemed to be shaped by material and normative rationales alike. Importantly, these rationales do not always pull in opposite directions, but can in fact be intimately connected. With the term '*strategic social construction'*, Finnemore & Sikkink (1998) refer to the process in which "actors strategize rationally to reconfigure preferences, identities, or social context", arguing that, just as rational decision-making is a natural component of any politically significant normative change, so too does dominant societal norms influence rational decision- making (p. 887). The following analysis will similarly maintain that the relationship between the two is highly interactive.

The last section has outlined different perspectives on transparency policies, presenting the promises and pitfalls that comes from their exclusive reliance on norms. Showing that interest-based strategies have proven unsuccessful in delivering ambitious climate policies thus far, it argues that norm-based strategies have potential to circumvent the powerful vested interests that currently block the adoption interest-based strategies. I do not dismiss the soft regulatory nature of the Taxonomy as inherently ineffective but maintain that it can strengthen norms for sustainable finance, which might prove successful in two different ways. Firstly, it might alter the preferences of financial actors to a point where sustainable investing becomes habitual and the new normal, precluding the need for direct material incentives. Secondly, it might alter the preferences of enough financial actors to tip international dynamics in favour of previously infeasible political solutions, laying the ground for more ambitious policies in the future.

Recognising the highly political nature of transparency policies, I nonetheless maintain that they can be progressive means of change if carefully designed and implemented (Fung, Graham & Weil 2007). While a comprehensive analysis of transparency power dynamics in line with a

critical political economy perspective is beyond the scope of this thesis, the normative focus nonetheless allows me to account for any potential normative conflicts of knowledge generation. This serves to highlight whose information has been considered valid and accorded primacy in the decision-making process leading up to the Taxonomy's adoption, which might pave the way for critical political economy research in the future.

3.3 Normative change

Having established the theoretical focus on norms, this section outlines their nature more in-depth, accounting for how norms change and the role of policy in establishing them. Finally, it presents the five normative institutional strategies against which the Taxonomy is assessed.

How do norms change?

The Taxonomy is designed to increase transparency, protect against greenwashing, and steer capital to sustainable activities (Commission 2021a). In normative lingo, this entails a shift from the currently dominant norm of conventional investment practices towards a new norm of sustainable investing. In order to assess the Taxonomy's potential to contribute to this normative shift, we must first know *how* norms change.

While a norm is usually perceived as a relatively stable construct, they can in fact change very abruptly. Nyborg et al. (2016) draw on the ecological concept of 'tipping points' to describe how norms change, and the role that feedbacks play in crossing them: "The tipping point is where a vicious cycle turns into a virtuous one, or vice versa" (p. 42). This dynamic is based on the premise that peoples' willingness to accommodate a new norm grows with the number of norm followers, hence enabling vicious or virtuous cycles to arise. The new norm reaches a level of stability when social feedback triggers the norm into a process of self-reinforcement (Nyborg et al. 2016).

How then, can a new norm take hold in a network? Theory on innovation diffusion holds that a new behaviour must first be pioneered by so-called *norm leaders*, who persuade others to embrace it. If the new behaviour is recognised as individually beneficial by other people, a local cluster – or critical amount – of norm leaders emerge. At this stage, the speed and scope of the new behaviour's growth depends upon the social standing of the norm leaders (Nyborg et al. 2016). These pioneers are hence essential for a norm's successful foothold, in shaping "the breadth and depth of norms by strategic choices to link behaviours to certain identities, roles,

and circumstances under which they are expected" (Mitchell & Carpenter 2019, 419). It is norm leaders who create positive feedback loops, ultimately causing the new behaviour to reach a tipping point and become 'cool' and the new normal (Nyborg et al. 2016, 43). While social sanctioning serves as an important enforcement mechanism in the early growth of a norm, fully internalized norms are typically followed independently of whether others observe and sanction that behaviour (Vatn 2005a; Nyborg et al. 2016).

Policy as a means to change norms

So far, I have discussed how norms impact behaviour and how new ones can take hold in a social network, showing the paths through which norms can win influence. But say we have a situation where there is a public interest in accelerating the establishment of a norm, how can policy be utilised for this purpose? The nature of a social norm is as previously mentioned two-fold, consisting of a normative as well as a social element. Norm-strengthening policies may be designed to alter either one of these elements – or optimally, to combine the two.

Speaking to the social element, Nyborg et al. (2016) propose a set of conditions that enables the effective mainstreaming of a norm. Firstly, behaviour must be easily observable so that social sanctioning can take place. Secondly, the new behaviour should be easy to copy, hence not entailing high costs. Thirdly, the process will run smoother if the new behaviour entails *coordination benefits*, that is, situations where "social, economic, and technical factors (…) invoke a need for people to coordinate their behaviour" (Nyborg et al. 42). Lastly, new behaviours are more easily adopted when individuals expect them to become the new normal, independent of what is considered normatively right. A potentially powerful role of policy is therefore to "provide reasons for people to change their expectations" (Nyborg et al. 43). All of these conditions seek to strengthen the social and/or economic feedbacks from adopting the new behaviour. Such feedbacks can either steer in the same direction or in opposite directions. What matters for the growth of a norm is their combined effect (Nyborg et al. 2016).

Policies that are focused on altering the normative element will instead seek to renegotiate collectively held values (Mitchell & Carpenter 2019). This strategy typically involves shifting the discourse from the interest-based "costs vs. benefits" to the normative "is vs. ought", whereby certain behaviours are identified as correct and others as wrong. They thereby intend to activate a *logic of appropriateness*, encouraging actors to "assess their social interests in gaining and maintaining a certain civic identity by behaving in certain ways" (Mitchell &

Carpenter 2019, 414). This thesis will assess the Taxonomy's strengths and weaknesses against five normative institutional strategies identified by Mitchell & Carpenter (2019) that are presented in detail in the next section.

While structuring the analysis around their five normative strategies, I will frequently refer to Nyborg et al.'s (2016) enabling conditions, recognising the importance of the normative as well as the social element in norm building. An effective norm-promoting policy should optimally combine these elements, having social and economic feedbacks generate a stable loop of self-reinforcement that is supported by a solid narrative of what is 'wright and wrong'. As touched upon previously, the EU Taxonomy does little to directly strengthen the economic feedbacks of investing sustainably (Baer, Campiglio & Deyris 2021; Ameli et al. 2020). Its most prominent route to success will arguably lie, therefore, in its ability to combine a strong normative narrative with the strategic strengthening of social feedbacks.

3.4 Normative institutional strategies

This section will present Mitchell and Carpenters' (2019) normative institutional strategies more in-depth and account for how they apply to the EU Taxonomy more specifically.

1. Promoting discursive shifts

Language and discourse are central policy tools when seeking to alter collectively held values since targeted actors must be rhetorically persuaded to adjust their perception of what is legitimate, and to value identities, norms, behaviours and roles over outcomes and interests. Central to discursive strategies is the act of *framing*, i.e., making "some aspects of a perceived reality (more salient) in such a way as to promote a particular problem definition, causal interpretation, moral evaluation, and/or treatment recommendation" (Entman 1993, 52).

Mitchell & Carpenter (2019) suggest that normative frames are undervalued in climate change policy, arguing that a rhetorical shift from 'self-interest' and 'costs and benefits' towards considerations of 'the public good' and 'right and wrong' can accelerate climate action where the progress of interest-based rationales is moderate or slow (p. 418). Such normative frames enhance the salience and legitimacy of ethics-based discourses at the expense of their interest-based counterparts, which might serve to 'rhetorically entrap' actors in a logic of appropriateness (Petrova 2016). Another discursive strategy is found in so-called *norm grafting*. This speaks to the process whereby "norms gain influence through linkage both to accepted

meta-norms and to specific norms codified in international law" (Finnemore & Sikkink 1998), i.e., drawing associations to already established and broadly accepted norms.

How then, is the problem definition as well as the suggested treatment framed in the Taxonomy framework? And how does the tool utilise normative frames and norm grafting to win ground? These questions are explored under hypothesis 1 (H1): *The EU Taxonomy has an effect because it promotes discursive shifts*.

2. Defining and promoting norm-related identities

The definition and promotion of norm-related identities speaks to the centrality of norm leaders in mainstreaming new behaviours. These shape "the breadth and depth of norms by strategic choices to link behaviours to certain identities, roles, and circumstances under which they are expected" (Mitchell & Carpenter 2019, 419). So, while discursive shifts speak to the formulation of new values, norm-related identities are essential for showing how these values are translated into new behaviours - i.e., leading us from theory to practice. Norm leaders can either frame already existing identities as particularly salient, or establish new norm-related identities for actors to take pride in. This is typically done by means of rhetorical strategies and frames that defines "good citizenship" (Mitchell & Carpenter 2019, 419).

Efforts to promote norms are effective "(1) when the actors being targeted value acquiring or maintaining a particular identity, (2) when certain behaviours are essential to doing so, and (3) when those behaviours fit the targeted actors' social roles" (Mitchell & Carpenter 2019, 419). Each of these criteria will be explored under the hypothesis 2 (H2): *The EU Taxonomy has effect because it defines and promotes norm-related identities*.

3. Mobilising pride and shame

Related to the promotion of norm-related identities is the mobilisation of pride and shame as a norm-strengthening strategy. To frame some behaviours as praiseworthy and others as undesirable enables the soft enforcement mechanism of *naming and shaming.* This works by (1) framing certain behaviours as violations of morality, (2) labelling them as inappropriate, and (3) creating social expectations on actors to conform those behaviours (Mitchell & Carpenter 2019, 419).

The effective mobilisation of pride and shame calls for similar enabling conditions as those emphasised by Nyborg et al. (2016). For one, generating transparency around targeted actors'

desirable and/or undesirable behaviours is essential, as it enables social sanctioning from external actors. This speaks to the effectiveness of the Taxonomy's transparency generating approach, which is closely related to the sustainable investment strategy promoted through its institutional design. Secondly, targeted actors are more likely to adopt new behaviours when they experience strong social expectations to norm conformance (Mitchell & Carpenter 2019). As emphasised by Nyborg et al. (2016), a new behaviour is more easily adopted when actors expect it to become the new normal, independent of what is considered normatively right. This condition speaks thus, to how the Taxonomy generates social expectations of norms conformance. These questions will be explored under the hypothesis 3 (H3): *The EU Taxonomy has effect because it mobilises pride and shame.*

4. Mobilising transnational networks

"Norm-building campaigns succeed when gatekeepers work with a few strategically chosen others to develop and communicate a strong unifying message" (Mitchell & Carpenter 2019, 420). Gatekeepers are actors with "network visibility, prestige, large budgets, connections and access to numerous allies and influence over targeted actors" (Mitchell & Carpenter 2019, 420), which in this case refers to the EU. The mobilisation of transnational networks can trigger more effective norm convergence by making new international resources available and by multiplying "the opportunities for dialogue and exchange" (Keck & Sikkink 1999, 89), i.e., accelerating the norm diffusion process.

The success of norm-building campaigns are thus dependent on the combined influence of gatekeepers and their targeted partners on the one hand, and their ability to deliver a shared normative narrative on the other. In the Taxonomy context, the former speaks to 1) the EU's strength as a regulatory gatekeeper at the global stage, and 2) the social standing of the transnational networks that EU have partnered with amongst targeted actors, that is, firms and financial actors. The latter speaks instead, to the necessity of shared values and an established common discourse. To succeed in this undertaking, it is important to select networks "whose interests, perspectives, resources, and reputations are consistent with and bolster the sought-after framing and normative discourse" (Mitchell & Carpenter 2019, 420).

I will explore how these dynamics played out in the Taxonomy, discussing the relative strength of the EU as a gatekeeper in climate-finance nexus and how does it draw on strategic

partnerships to communicate a strong normative stance on sustainable finance under hypothesis 4 (H4): *The EU Taxonomy has effect because it mobilises transnational networks.*

5. Shifting forums

A final strategy involves a shift of forums. In cases where powerful veto players has a strong grip of the normative agenda, committed actors can benefit from gathering in alternative institutional forums, where they can push for more ambitious policies amongst like-minded actors. Such venue-shifting serves to "de-legitimize practices that advocates see as unethical as well as the social structures that brought those practices into being and that hobble efforts to change them" (Mitchell and Carpenter 2019, 421). There are two elements in this strategy: Where the first speaks to the need to marginalise the influence of veto players, the second speaks to the importance of rewarding norm leaders.

In the case of the Taxonomy, this normative strategy speaks to the potential effects arising from moving corporate sustainability reporting from the private self-regulation sphere to EU jurisdiction, but also unilateral and/or transnational climate governance at the expense of multilateral fora. Did these shifts of venue foster a stronger norm for sustainable investing and tilt the balance of power to norm leaders? And were there any powerful veto players that suffered as a result? These questions are explored under the hypothesis 5 (H5): *The Taxonomy has effect because it shifts forums to marginalise veto players and reward norm-leaders.*

4.0 Methodology

This chapter will outline the methodology of the thesis, hereunder the research design, selection of informants and analytical strategy, as well as ethical considerations and research limitations.

4.1 Research design

As of today, there are few quantifiable results to serve as empirical foundation to draw conclusions about the impact of the Taxonomy. In these instances case study research is particularly useful, since it allows the researcher to gather information from a variety of data sources to build a comprehensive understanding of the unit of analysis – the Taxonomy and CDA – in an early phase (Yin 2014). Indeed, a case study is an "empirical inquiry" that "investigates a contemporary phenomenon (the "case") in depth and within its real-world context, especially when the boundaries between phenomenon and context may not be clearly evident" (Yin 2014, 16). This is indeed true for the Taxonomy, which is a contemporary rather than historical phenomenon that builds on contextual normative, legal and political developments within the 'sustainable finance' domain.

A case study may be applied for different purposes. Yin (2014) differentiates between the *descriptive* approach, which describes a phenomenon in its real-world context; the *explanatory*, which explains "how or why some condition came to be"; and the *exploratory*, that aims to identify research questions for further studies (p. 238). This research project will include all elements to some degree but is mainly focused around the second; addressing how the Taxonomy draws on normative institutional strategies to strengthen sustainable investing. A case study forms an understanding of a case by converging information from various data sources (Yin 2014). This research project is based on three sources of primary data: written documentation, interviews with key informants, direct observation.

Written documentation

The main source of primary data for this study is written documentation. This falls under O'Leary's (2017) category of 'existing data', that is, "data that while often found on the Internet, still exists independent of it" (p. 270). This broad category of evidence includes various formats and covers a huge array of data types. Of particular relevance here is official data and records, hereunder legislation and non-governmental organization data, but also organizational communication, documents and records (O'Leary 2017).

The selection of written documentation can usefully be divided into two different categories. The first category of documents – EU policy documents, reports, and communication – served to build a comprehensive understanding of the Taxonomy and the CDA, the novelty of which called for purposive sampling (Seale 2018, 166). This is effective when little is known about a topic, which gives the investigation an exploratory feel (Seale 2018, 166). Here, I reached a point of saturation relatively quickly. The second category of documentation includes reports, communications, and consultation responses from various corporate and non-governmental stakeholders to the Taxonomy, which was used to map how the Taxonomy and CDA were received by different stakeholder groups. To this end, I adopted a maximum variation sampling approach to ensure that a vide variety of views were presented (Seale 2018, 167). While not able to include everyone's views, I soon noticed that each respective stakeholder group held relatively homogenous views. Civil society actors for instance, tended to adopt the same narratives and discourses in their accounts, reflecting a shared understanding of the Taxonomy's promises and challenges. The same was true for corporate actors. A saturation point could therefore be reached sooner than expected.

Given the legal status of the Taxonomy and the nature of my research, I deemed it natural to limit the document review to publicly available documents and communication only. A list over key documents – all been accessed though the internet – is presented in Appendix A.

Interviews

The second source of primary data came from semi-structured in-depth interviews with key informants. Working with key informants is particularly useful if you aim to gather "insider or expert knowledge that goes beyond the private experiences, beliefs and knowledge base of the individual you are talking to" (O'Leary 2017, 212). This rationale aligns well with the motive of my project, where expert knowledge of the Taxonomy is key. A main objective for using key informant interviews has been to expand my initial understanding of the Taxonomy (O'Leary 2017, 2013), but also to decipher the relationship between policy to those making the policy on the one hand, and those targeted by the policy on the other. Another objective was to triangulate and confirm analytical assessments (O'Leary 2017, 213), ultimately helping me better understand the 'why' and the 'how' behind the 'what' of the documents themselves.

A common challenge that might arise in working with key informants relates to informant subjectivities. While all must be expected to answer in line, either with their own or their

employers' worldview, some will have "a real agenda operating" (O'Leary 2017, 214). This is certainly true in this case, where the unit of analysis has been subject to heated political debate and stakeholders' views can be expected to reflect underlying political and/or material motives. I have addressed this risk by undertaking preliminary research of the positions of informants' employee organisations, which has enabled me to better contextualise the data provided.

I conducted a total of 13 semi-structured interviews (see Appendix C). They were all conducted in the spring 2022 and lasted around an hour. The interview guide was adapted to the various stakeholder groups, and in some cases to suit the individual expertise of a respondent. Adjustments were based on their work experience, written publications, or a preliminary clarification of expectations. The overall structure underwent minor changes over time, as some initial questions were found to give answers of little use. Since this was in the midst of Covid-19 restrictions in Norway, no interviews were conducted in person. With the exception of one respondent – who requested to have the interview over phone – all interviews were conducted over Skype. Besides the one over phone, I video recorded all interviews to facilitate transcription, which allowed me to be more attentive and adapt the conversation according to the semi-structured form (Kvale & Brinkmann 2009, 159). I also took notes by hand, which helped me to remember any thoughts that struck me during the conversation. Similar to that of written documentation, the relative homogenous responses within each respective stakeholder group allowed me to reach a saturation point sooner than expected.

Direct observation

Another source of information for this thesis has been gathered by participating in digital conferences and webinars that undertake the EU Taxonomy specifically, or sustainable finance more broadly. This goes under Yin's (2014) category of 'direct observation'. While physically attending conferences and events has a participatory element, virtual meetings limits the role to that of an observer only. Attending these webinars have served to strengthen my knowledge of the domain and get a more thorough understanding of the language and concepts at play (Yin 2014), and their digital nature has allowed be to gain access to high-level conferences that would otherwise be difficult to attend. The passive nature of observation limits the dangers of bias to that of event selection. I attended a total of 8 relevant digital events in the time span between November 2020 to December 2022 for this purpose, a comprehensive list of which is presented in Appendix B. I came across the events through social media posts by organisations and news outlets engaged in sustainable finance, or upon direct recommendation by informants.

Analytical strategy

This thesis primary analytical strategy is *qualitative data analysis*. In contrast to its quantitative counterpart's focus on statistical analysis, qualitative approaches uses thematic analysis to generate knowledge of the unit under investigation (O'Leary 2017, 325). Since the primary objective of this research is to explore *how* the Taxonomy draws on norms to improve investment practices, a qualitative approach – which allows for an in-depth and open-ended analysis of words, experiences and observations – is suitable (Seale 2018, 308). It also suits the social constructivist philosophical assumptions of the thesis.

The thesis will combine a deductive and inductive logic of reasoning. Assessing the Taxonomy's normative potential against a predetermined analytical typology speaks to the deductive phase, where a theoretical framework is utilised to broadly identify what themes will be explored in the analysis (O'Leary 2017, 330). Since it is only recently adopted and relatively underexplored in literature however, I deem it useful to approach my data in a relatively unrestricted manner, engaging in inductive reasoning to explore the predetermined themes in greater detail (Seale 2018, 434). According to O'Leary (2017), the credibility of deductive hypothesis testing is conditioned upon the researcher's "willingness to acknowledge the unexpected that just might arise form their data" (p. 331). Engaging with data inductively to explore alternative explanations can hence serve to lower the risk of confirmation bias (O'Leary 2017, 331). Engaging in cycles of deductive and inductive reasoning is thus deemed a fruitful strategy to test theoretically identified hypotheses without downplaying alternative causes.

4.2 Selection of informants

The informants of the study was invited to participate based on their organisational affiliation, with the objective of representing a broad variety of perspectives on the Taxonomy. The selection started by identifying relevant stakeholder groups. Here, a first distinction was made between targeted actors and non-targeted actors. While the former can be further categorised into financial and non-financial actors, the second category includes public authorities, academia and NGOs and interest organisations, resulting in five stakeholder categories.

The second step involved identifying relevant actors from each stakeholder category. This was done by referring to the composition of the EUs sustainable finance expert groups (HLEG, TEG and PSF), but also on the basis of Taxonomy-related reports, articles and webinars. Potential informants were contacted on e-mail, who in turn recommended new interviewees in line with

a snow-ball approach. Generating a list of informants through a referral process can be particularly useful to identify informants with a particular expertise or insider experience (O'Leary 2017, 211). A list of all informants is presented in Appendix C. sorted after their primary employee organisation, even if several served as advisors in the expert groups.

4.3 Analysis

While Mitchell & Carpenter's (2019) typology served to determine the overall themes of the analysis, raw data have nevertheless undergone a parallel thematic analysis according to Clarke & Braun's (2017) six-step approach. While similar to other qualitative approaches in that it advocates for frequent engagement with the research question (Bell, Bryman, & Harley 2018), it aims to move beyond mere semantics towards underlying assumptions, ideas and concepts in a more systematic manner. This is arguably well suited for this research undertaking, which seeks to identify hidden discursive shifts, narratives and identity markers in text and speech. The six steps is as follows: 1) Familiarise yourself with the data; 2) generate initial codes; 3) search for themes; 4) review themes; 5) refine and rename themes; and 6) produce the report. Since the aim of the interviews have been to expand my understanding about the Taxonomy tool and to triangulate analytical assessments, I have departed from their approach slightly in not adopting a strict coding strategy (step 2).

Firstly, upon completing the interviews, I familiarised myself with the data by transcribing the video recordings (applicable to 12 out of 13 interviews) by hand and paired them with my written notes. This gave me an overview of the data at hand, which allowed me to start searching for recurrent themes. Secondly, I organised all transcriptions in a document that was organised after recurrent themes, identified either through literature or the interviews themselves. In the third phase I revisited my research question and theoretical framework, upon which a number of themes were deemed irrelevant for the subsequent analysis. They emerged in a more crystallised form in the fourth step, where I mapped the internal homogeneity of each theme to better single out the ones that were broadly supported by the sample group, including whether they supported or challenged themes previously mapped in the document analysis. Refining the themes accordingly served to bring out the key message of each one, but also giving a clearer picture of their collective essence, i.e., the main findings of the research.

The result of this process – and the final step – is presented in the analysis chapter, where recurrent themes are grouped under Mitchell & Carpenter's (2019) normative typology. The

interview-data is here merged with document-, and webinar generated data that have been thematically analysed. I have strived to present a nuanced and comprehensive picture, giving room to dominant trends and alternative explanations alike. The final step has been highly iterative, with several rounds of revisiting themes and triangulating findings. Informants are here anonymised under a number, presented in the format 'I(X)' when quoted.

4.4 Ethical considerations

The data collection for this thesis was approved by the Norwegian Centre for Research Data. To further ensure that data collection and utilisation would live up to the highest ethical standards, I have considered Diener & Crandall's (1978) four ethical areas throughout the research process, continuously addressing whether the project involves 1) any harm to participants, 2) lack of informed consent, 3) an invasion of privacy, or 4) deception of any kind.

As for the first area, this research does not address a topic of a particularly sensitive nature. The main risk for participants is identified as the collection of data that reflect individual political standpoints. Seale (2018) emphasises that anonymity can be especially difficult to maintain in cases where people work for particular organisations. This has therefore been systematically addressed by ensuring full anonymity to all participants, where only the employer organisation is presented, and that upon prior consent. Any quote that may indicate the informant's employer was also cut out. Furthermore, interview-data was collected with informed consent, where both participation and video-recording were agreed upon beforehand. Throughout the process, interview-data have been treated according to current data protection standards. Files were saved on a local University computer under an anonymised system. This to ensure that participants would not be subject to any invasion of privacy arising from the handling of personal data.

One issue of concern has been a potential distortion of views – or deception – that could arise from the translation process, since it risks nuancing the original meaning of the respondent. A total of eight interviews were conducted in Norwegian. These were transcribed and sorted thematically in their original language, and only translated to English if quoted in the analysis. In translating, I was careful to convey the original meaning to my best ability, trying to ensure that participants' views were presented in a respectful manner and reflective of their ideological positions. In total therefore, the research has been conducted with strong ethical standards throughout the process.

4.5 Research positionality

Since case study researchers must understand the unit of analysis beforehand, they are especially prone to utilise a case study to confirm a predetermined position (Yin 2014). They might be tempted therefore, to emphasise evidence that supports their position while downplaying contrary evidence. Conducting ethical research will therefore involve careful consideration of potential preliminary biases and keep updated on contradictory perspectives throughout the process (Yin 2014).

Bryman (2016) stresses that qualitative data analysis is a result, not only of the data collected, but also of the researcher who interprets the data. The findings of this research can thus usefully be understood as the result of a process whereby my respondents' subjective knowledge have interacted with those of my own. A careful consideration of my own positionality in relation to the unit of analysis is therefore deemed important. As a student, I have a highly interdisciplinary background. My academic field of interest can be grouped under the umbrella of international relations and have included courses in political science, international law, political economy, and history, but also languages and cultural studies. I am primarily trained in qualitative research and have always been interested in the multiple sources and expressions of power in global politics, and especially that of the private sector.

I first gained knowledge about the EU Taxonomy through my position as a sustainability consultant for a project called the Nordic Sustainability Reporting Standard (NSRS) initiated by the Nordic Accountant Federation. The Taxonomy immediately caught my attention. In the corporate sustainability information ecosystem – which I was then was part of – the tool was met with a lot of optimism and was frequently portrayed as a game-changer that would end greenwashing and finance the green transition. With research responsibility for the Taxonomy, the EU Green Deal, and climate risk, I was able to study the tool and its context in-depth throughout the project, which cemented my interest in the field.

Being trained in qualitative research, I doubt claims that such undertakings can be fully objective. Instead, I aim to strive towards high levels of reflexivity around my choices, assumptions, and motivations (Kvale & Brinkmann 2009). While I have tried to put aside my own opinions to the best of my ability, I will nevertheless recognise the potential influence that my previous affiliation with a corporate industry association might have had on this research project. I have addressed this potential bias paying greater attention to non-corporate perspectives in the data selection process, both with literature and webinars. Only two out of

eight webinars attended were co-organised by corporate actors for example, serving to balance any potential overrepresentation of this stakeholder groups' perspective initially. In total therefore, I have systematically addressed the risk of bias, also by triangulating findings from webinars with those from written sources and interviews.

4.6 Research limitations

The Taxonomy is an enormous framework with a close-to unlimited number of stakeholders given its potential impact on the state of the environment. This thesis' empirical foundation is limited to selected documentation, 8 webinars and 13 interviews. Whilst not an explicit objective of qualitative research, it is still worth noting that the limited sample might raises issues of generalisability – that is, whether research findings are "applicable to a larger population, a different setting or to another group" (O'Leary 2017, 68). As an example, several of the informants represented stakeholders based in Norway, whose perspectives on the Taxonomy might differ from their counterparts based in EU Member States. A different informant sample could therefore have given other results. The level of saturation experienced in the data selection process and systemic triangulation of findings nonetheless serves to minimise the risk of poor generalisability.

Another and related limitation concern the making of the Taxonomy, a process where decisions concerning scope, policy design and technicalities is little documented. To build a comprehensive narrative of how the context in which this policy tool came about, what potential instruments were downplayed in its favour, and whose influence ultimately gained ground has therefore proven difficult. A better understanding of such could have strengthened the contextual backdrop for the analysis, where issues of stakeholder influence and power is raised.

One might also question the theoretical focus on norms, which downplays the material incentives that might arise from the Taxonomy. This choice is based on the fact that the materialisation of incentives is dependent upon external actors and cannot, therefore, be attributed to the Taxonomy itself. Expectations as to how the Taxonomy will come to spur the development and deployment of green premiums, loans, and green labels is also to a larger degree accounted for in academic literature (Chiapello 2020; Schütze & Stede 2021; Linciano, Soccorso & Guagliano 2022) – against which a complementary assessment of normative strength is deemed a more pressing research gap . With that said, it is worth noting that I do not aim to give a full picture of Taxonomy-induced material incentives towards sustainable

investing in this thesis.

Yet another limitation arises from the fact that it researches the Taxonomy in isolation. The tool is part of a larger policy framework with complementary regulations, disclosures and labels that are designed to interact and collectively strengthen the norm of sustainable investing. The choice to assess the potential of the Taxonomy alone, without accounting for its interaction with other policies, was done on the basis of this thesis timeframe and scope. I acknowledge that this is a major limitation but am confident that the current analysis nonetheless might serve a starting point for future normative assessments of the policy package as a whole.

A related limitation is found in the centrality of the CDA specifically, as opposed to the Climate Delegated Act more generally. This focus risks exaggerating the prominence of the energy sector relative to that of other sectors and might come to portray the Act as having an disproportionate influence on the normative standing of Taxonomy as a whole. The limitation of the case study was nonetheless done on the basis of 1) the centrality of the energy sector for the green transition, 2) the relevance of the Act, both in terms of timing and political attention, and 3) the scope of the thesis.

There are also limitations with regards to time. The Taxonomy and the Delegated Acts are work in progress whose scope and content are expected to be evaluated and updated with time – they are 'living documents' (McGregor 2006). As the underlying data for this thesis' findings may be updated, it risks being outdated in the future. The current configuration of the Taxonomy is nevertheless likely to create path dependencies that might influence the future trajectory of sustainable finance, against which an assessment of its normative strength can serve an important steppingstone towards understanding future developments.

5.0 The EU Taxonomy: A Gold Standard?

This chapter will analyse the normative potential of the EU Taxonomy. The analysis is structured after five normative institutional strategies, against which the Taxonomy is assessed after its ability to 1) promote discursive shifts; 2) identify and promote norm-related identities; 3) mobilise pride and shame; 4) mobilise transnational networks; and 5) shift forums to marginalise veto players (Mitchell & Carpenter 2019). It aims to provide a comprehensive and more systematic understanding of the Taxonomy's normative strengths and weaknesses and how those are affected by the adoption of the CDA.

5.1 Promoting discursive shifts

This section will discuss how the Taxonomy and CDA draws on discursive shifts to strengthen the norm for sustainable finance, identifying the use of causal interpretations, moral evaluations, and strategic framings. It starts by outlining the central discourses in the Taxonomy, here identified as 1) climate risk is financial risk, 2) sustainability is good business, 3) private finance as the solution, and 4) ecological sustainability, which are summarised in a discussion around whether the Taxonomy's draws on normative or interest-based framings. It continues to outline central discourses in the CDA, that is, 1) low-carbon nuclear, 2) gas as a transition bridge-fuel, and 3) pragmatism in a time of crisis, which end in a discussion around the Taxonomy's discursive strength and how that was influenced by the CDA's adoption.

"Climate risk is financial risk"

The Taxonomy clearly positions the climate change issue within the discursive landscape of risk. TEG (2020) introduces the issue at hand by referring to the World Economic Forum's 15th Global Risk Report, pointing out that "all of the "top long-term risks by likelihood" are environmental, and climate change is rated the biggest global threat" (p. 7). The sustainable finance challenge is thus actively positioned within the climate risk discourse. How might this serve to potentially strengthen the norm for sustainable finance?

Firstly, the climate risk discourse serves to rhetorically connect the climate challenge with global financial flows. Better alignment between climate objectives and financial stability is framed as a 'win-win solution', where the integration of climate risk in financial-decision making is said to strengthen financial stability, and where private finance is framed as an

effective means to accelerate climate action. Zou et al. (2015) provides a poignant example of how the policy agendas are rhetorically connected through the discursive frame of risk:

> The role of the financial sector (…) in the economy is to match savers and investors, and to manage risks in line with fiduciary duties. One the face of it, this is not dissimilar to the role of climate policies. Known as mitigation and adaptation policies to the climate change community, climate policies aim to avoid the risks of catastrophic climate change with potentially far-reaching impacts on the global economy by reducing GHG emissions and increasing economic resilience and reducing vulnerability to the impacts of climate change (p. 1)

The discourse promotes a causal interpretation in other words, of sustainable development and financial stability as mutually reinforcing policy agendas, which strengthens the rationale for financial solutions to climate change on the one hand and identified potential synergy effects on the other. The latter might strengthen the positive social feedbacks from investing sustainably, since coordination benefits is an important condition for altering the attractiveness of a new norm (Nyborg et al. 2016).

Secondly, by introducing climate change as a component in perhaps the most central concept for investors – risk – climate risk in itself must be understood as a strategic framing: "the risk discourse and alleged rationality that reinforces it are already well established in the corporate lexicon" (Wright & Nyberg 2015, 61). Since knowledge of, and systems for risk assessments are long established in the finance sector, the conceptualisation of climate change in already well-established financial lingo and custom arguably lowers the transaction cost of adopting the new norm, the acceleration of which is more effective when the alternative behaviour is low cost (Nyborg et al. 2016).

Thirdly, by defining sustainable investments according to their climate performance, the Taxonomy promotes a causal relationship between low-risk and sustainable investments on the one hand, and high-risk and non-sustainable investments on the other. While not explicitly making a judgement on the financial performance of an investment, it serves as a blueprint of the sectors and activities that the EU deems compatible with a low-carbon future, signalling that non-aligned industries will not be profitable in the long run. Informant no. 2 (I2) emphasised that, since the Taxonomy spotlights what sectors are believed to survive the de-carbonisation of the economy, it may in fact come to serve as a basic climate risk assessment:

> There are a lot of different factors involved in assessing transition risk, which makes it very difficult to report anything meaningful (…) But if you have something that is Taxonomy-aligned it has already been through a screening

> process that says, "this is a sector we expect to be here in the future, and it is best in class", working as a mini-screening on climate risk (I2)

I2 points to the complexity of undertaking climate risk assessments according to the TCFD framework, arguing that the relatively simple and straightforward design of the Taxonomy might complement the TCFD as a basic screening tool, highlighting the Taxonomy's strategic position within the climate risk discourse and its potential market niche within the sustainability information ecosystem.

Fourthly, the climate risk discourse also signals a heightened institutional focus on a long-term approach to investing as opposed to quarterly thinking. It introduces the longer time horizons of climate change in a domain which is otherwise dominated by short-term thinking, urging investors to focus on long-term value creation:

> This tragedy of the horizon goes beyond climate change and applies to all areas of sustainable development. Sustainability is axiomatically linked to the long term, as the associated actions and investments – in economic, social and environmental terms – require action with a long-term orientation (HLEG 2018, 45)

While not explicitly reflected in the institutional design of the Taxonomy, the climate risk discourse serves as a moral devaluation of short-term investment practices, strengthening the collective understanding of its inappropriateness. This might in turn strengthen positive social feedbacks from long-term investing and negative social feedbacks from short-term investing. The adoption of the climate risk discourse must also be understood as a poignant example of norm-grafting, where the establishment of a new behaviour benefits from operating within the sphere of already accepted meta-norms (Mitchell & Carpenter 2019).

"Sustainability is good businesses"

One the other end of the climate risk discourse stands the business case for sustainability – or the financial opportunities that arise from climate change. Framing environmental performance as a matter of market competitiveness, the Taxonomy's institutional design strengthens the cognitive association between 'green' – i.e., a normatively desired behaviour – and financial profits one the one hand, and 'grey' – i.e., normatively undesired behaviour – and stranded assets on the other. As such, it can be said to promote a causal relationship between climate action and profitability, playing into the increasingly dominant discourses on 'green growth' and 'win-win solutions' (Tørstad 2020). The same is visible when looking at the broader sustainability concept, where the Taxonomy and the Action Plan reflect the position that

"environmental, social and economic goals are not considered to contradict each other, but to complement each other" (Möslein & Sørensen 2018, 2). The very title of the policy package – EU Action Plan for Financing Sustainable Growth – also portrays this complementary view:

> We are now moving towards a low-carbon society, where renewable energy and smart technologies increase our quality of life, spurring job creation and growth without damaging our planet (HLEG 2018, 2)

On the opportunity side of the climate risk discourse, the Taxonomy promotes the business case for sustainability – where environmental performance is framed to correlate with better financial performance – in yet another example of strategic norm-grafting.

"Private finance is the solution"

Related to the promotion of green growth and win-win narratives is the focus on private finance solutions to climate change. The HLEG (2018) clearly states that "the scale of the investment challenge is well beyond the capacity of the public sector alone" (HLEG 2018, 2), a framing which imposes the mobilisation of private capital. This is nothing new – market-based climate change solutions are as previously mentioned well established by now – but framing the treatment as a largely private sector undertaking must nonetheless be understood to downplay the relative significance of alternative solutions. It distances itself from the degrowth narrative for instance, which questions the compatibility of capitalism's economic growth imperative with effective climate action altogether (Klein 2014), and steers away from solutions that imagines a greater role for the state – i.e., publicly financed climate action. This is not to say that private finance is portrayed as the only solution, but that its significance to that of others is emphasised in the Taxonomy.

Given the increased reliance on market-based solutions and private finance in climate change governance (Bulkeley and Newell 2015; Chiapello 2020), one should not underestimate the resonance of this discursive positionality with a broad coalition of stakeholders, especially not in a European context that has a long history of market-led environmental governance (Buonanno & Nugent 2013). Also here might the Taxonomy benefit strategically from norm-grafting. As pointed out by Christian Thimann, Chairman of HLEG (2018): "The imperative of sustainable finance is nothing new, what is new is the momentum behind its implementation" (p. 3), pointing to the built-up impetus for private finance mobilisation from the twin adoption of the 2030 Agenda and the Paris Agreement. The broad acceptance of this norm was further reflected in the fact that no single respondent questioned the role of finance in addressing

climate change in the first place but expressed themselves in exclusively positive terms around its further institutionalisation.

"Ecological sustainability"

Dusík & Bond (2022) argue that the Taxonomy goes a long way to change – not only the understanding but also the application – of sustainable development, representing nothing less than a "revolution in thinking" (p. 93). Without looking at specific environmental performance thresholds, they regard the bigger picture by focusing on the combination of TR criteria and how they interact to create a new framing of sustainability.

The first line of their argument relates to the 'Do No Significant Harm' (DNSH) criteria, which postulates that for an economic activity to be recognised as green, it must contribute to one of the six environmental objectives without harming the other five. Dusík & Bond (2022) argue that the DNSH diverges from the dominant 'economic' framing of sustainable development, where "environmental losses can be traded against economic gains" (p. 93) towards an 'ecological' framing that "does not allow for trade-offs between the environmental, social and economic capital" (p. 93). Holding that the economic framing of sustainability has facilitated accumulative environmental losses and widespread greenwashing practices, they welcome the advent of this new, environmentally holistic approach that does not "accept ecological losses under any circumstances" (Dusík & Bond 2022, 94). The level of ambition is also reflected in informant responses, several of which talk about the Taxonomy's holistic ambitions and the complexity of such:

> The climate is more or less the easy part, but then we have the social and biodiversity one, there will be more difficulty in how they are adapted and used (I7)

The second line of their argument relates to the TR's 'significant contribution' criteria, which holds that an activity must contribute *significantl*y, rather than marginally, to one of the six environmental criteria to be recognised as green. Dusík & Bond (2022) argue that this criterion represents a narrative shift towards one that emphasizes the need for *positive* sustainability contribution. To merely refrain from causing harm will in other words not be considered sustainable in the Taxonomy, which thereby moves beyond a narrow economic sustainability definition as the "correction of negative externalities" (Pacces 2021).

Informant 12 gave an example of the latter. Researching one of the world's most prominent sustainability rating schemes – Morningstar – the informant found that their highest rated

company was MasterCard. This was allegedly not related to any sustainability contribution whatsoever, but only a result of the perceived lack of sustainability-related risk, which I12 said resulted in a skewed picture of 'sustainable' companies. By reserving the positive social and economic feedbacks that derives from being 'green' to the few norm-leaders who make a significant contribution instead of praising all actors who merely refrain from causing harm, the Taxonomy is designed to "push strong sustainability into the heart of 'sustainable investments'" (Slootweg 2022, 101). Whether this 'paradigmatic change of mind-sets will materialise depends on the implementation of the tool, however. Dusík and Bond (2022) warn that a poor application of the TR framework – where the criteria are deployed "softly or without due verification" (p. 95) – might trigger a slide back to an economic sustainability framing and reverse its contribution.

Normative or interest-based framings?

This section has outlined central discursive shifts promoted by the Taxonomy. It has highlighted that of climate risk, the business case for sustainability, and private finance as a climate change solution, all in which the tool might benefit from operating within the sphere of norms that are already mainstreamed in international climate change governance. These are all geared towards strengthening the cognitive association between sustainable investing and profits, which steers away from the historically dominant understanding of climate action as a costly undertaking (Hovi, Skodvin & Aakre 2013) and consolidates the perception that social and economic feedbacks pull in the same direction. In relative terms - the Taxonomy might therefore be said to discursively downplay the underlying assumption of climate change as a collective action problem. This is strategic from the point of view that, by portraying climate action as profitable, individual actors are stripped of their incentive to free-ride and should hurry instead, to reap the first-mover benefits of providing the public good of a stable climate, which is exactly what regulators want.

The above-mentioned discourses are all examples of interest-based framings that highlight the economic rationality of investing sustainably. They speak to the profitability and improved market competitiveness of sustainable investments, and frames climate change as a financial risk that can be assessed and managed in line with business motives. By and large therefore, the discursive focus is still on "costs vs. benefits", with only a few exceptions. The first is found in the less pronounced moral devaluation of short-termism, which is framed as inappropriate on normative grounds. Another is found in the DNSH criteria, which promotes an 'ecological'

rather than 'economic' understanding of sustainability, reflecting a recognition of nature's inherent – rather than exclusively monetary – value. A third exception is found in the 'significant contribution' criteria, which alters the ambition of 'sustainable' to include positive contributions only.

The Taxonomy must be said to promote not so much discursive shifts towards a normative rationale, but rather to feed into already dominant interest-based discourses. Given the increased reliance on market-based solutions and private finance in climate change governance (Chiapello 2020), one should not underestimate the resonance of this discursive positionality with a broad coalition of stakeholders, especially not in a European context that has a long history of market-led environmental governance. There is arguably an untapped potential therefore, in the strengthening of normative sustainable finance frames, where actors are rhetorically entrapped in a logic of appropriateness alongside the emphasis on material rationality.

The CDA's discursive legacy

The following sub-section is dedicated to outlining the central discourses in the CDA. The boldness of the Act's adoption can only be understood in light of nuclear and gas' political controversy, which is tied to their environmental impact and how that fit with the Taxonomy framework. First a comment therefore, on the formal requirements that a transitional activity like that of nuclear and gas must fulfil. The TR requires that TSC be based on 'conclusive scientific evidence and the precautionary principle' (Art. 19.1(f)). Besides meeting the DNSH criteria, a transitional activity must also: (i) be best-in-class in terms of environmental performance; (ii) not hinder development or utilization of low-carbon alternatives, (iii) not lead to a lock-in of carbon-intensive assets, or (iv) have no technologically or economically feasible alternative (Commission 2021a, 5).

"Low-carbon nuclear"

The CDA's framing of nuclear can be comprised to that of nuclear being a low-carbon energy source, which was underpinned by several preparatory reports (Linciano, Soccorso & Guagliano 2022). The discursive focus on its low-carbon nature is also characteristic for the nuclear debate outside the scope of the Taxonomy (Jessup & Rubenstein 2012), which has been subject to a marked renaissance. It is increasingly endorsed and advocated, not only by the scientific community (IPCC 2022) but also by prominent public figures – or norm-leaders –

like Elon Musk and Bill Gates, having risen to the top of the political agenda as a potent, stable and low-carbon energy source (Jessup & Rubenstein 2012). That the CDA taps into this newly gained momentum for nuclear might aid its way to broader public acceptance in yet another example of norm-grafting.

The controversy of nuclear in the Taxonomy framework did not concern its low-carbon nature however but was mainly centred around safety aspects and the environmental impacts of nuclear waste disposal – i.e., the DNSH criteria. Initial opposition led the Commission to task the Joint Research Centre (JRC) with undertaking an impact assessment of nuclear from a full life cycle perspective, whose final report found that there was no "science-based evidence that nuclear energy does more harm to human health or to the environment than other electricity production technologies already included in the Taxonomy" (Linciano, Soccorso & Guagliano 2022, 217).

The JRC report was nonetheless challenged by the PSF, who responded that nuclear energy does not ensure the sustainable use of water resources, pollution prevention, nor the protection of biodiversity and ecosystems, and does not, therefore, meet the DNSH criteria. In a joint letter to the Commission, Ministers representing Germany, Austria, Denmark, Spain and Luxembourg condemned the decision on the same grounds, arguing that the JRC failed to address residual nuclear risk and disregarded a full life cycle approach, expressing deep concern that "including nuclear power in the Taxonomy would permanently damage its integrity, credibility and therefore its usefulness" (Schulze et al. 2022). Prior to its adoption, Austria even threatened to sue the Commission if the proposal passed (Austria 2022).

The split understanding of nuclear energy's compatibility with the Taxonomy was also reflected in the responses of informants. While several held that nuclear plays an important role as a transitional energy source (I1; I7; I8), concerns were raised about the JRC's risk assessment of radioactive waste (I3; I7), and the potentially harmful impacts of the mining process (I7). I5 questioned the inclusion of nuclear based on the DNSH criteria, while I3 argued that:

> The JRC report is not written by people that understand the Taxonomy framework, so they do not really address the issue of DNSH to circular economy or pollution which would come from highly radioactive waste (I3)

Here, the respondent indicates that the JRC report reflected a lack of deeper familiarity with the broader sustainability approach of the Taxonomy. This claim is partly supported in other responses, where respondents in favor of including nuclear based their arguments on the climate neutrality without making any reference as to how it fits in with the Taxonomy framework (I1;

I7; I8), and opponents based their arguments in the Taxonomy criteria with no reference to its carbon footprint (I3; I5; I12). The importance of separating these two arguments was emphasized by I12:

> I'm not talking about being against nuclear power on ideological grounds, but just that it's not in line with the DNSH criteria because you don't have a long-term storage plan for the waste (I12)

Whether or not the polarised stance amongst respondents reflects the level of familiarity with the Taxonomy framework or not, it suffices to say that the labelling of nuclear as green was highly disputed. Key stakeholders did not agree on the standardised content, making up a prominent example of a normative conflicts of knowledge generation.

"Gas as a transition bridge-fuel"

The CDA reflected an enhanced discursive focus on *transition*. While the rationale for proposing the CDA starts by acknowledging the importance of shifting to renewable energy for example, it ends by stressing the need for "stable sources to accelerate the *transition* towards net-zero greenhouse gas emissions" (Commission 2022a, 1). In outlining of the justification for including gas in particular, the Commission largely refrained from scientific arguments but continued to stress its role as a transitional energy source that could accelerate the phasing out of coal and oil: The CDA "recognises the specific role of natural gas-related activities in the transition" (Commission 2022a, 2). This focus was also reflected in the additional CDA conditions, whereby new gas-fired plants must replace a coal-based facility, again stressing the role of gas as an enabler for transition.

The framing of gas as an important bridge-fuel is nothing new: "Experts established a discourse, later reified by the hydrocarbon industry and policymakers, that natural gas is a transition fuel leading society away from more polluting fossil fuels to renewables" (Szabo 2020, 73). And this "despite the scenario modelling pathways adopted by the EU to achieve the 2050 climate neutrality objective indicating the need for approximately a 70% reduction in the use of unabated fossil gas by 2050" (InfluenceMap 2022, 3). According to Szabo (2020), the EU executive arm has a long history of promoting this particular framing, which it allegedly utilises to smooth the discrepancy between its climate policies on the one hand, and the region's reliance on gas on the other (Szabo 2020).

Framing gas as an effective transition-fuel involves making a judgement about its climate impact relative to other energy sources. Here, the CDA taps into the 'natural gas' framing

(Commission 2022a). Instead of looking at the environmental performance of gas alone, the 'natural gas' discourse strategically assesses the energy source in relation to its fossil fuel relatives, whereby it comes out as the 'cleanest' option, the rhetorical result being that its climate-friendly qualities are exaggerated (Szabo 2020). According to Szabo (2020), the EU has a long history of adopting the 'natural gas' discourse. Its resonance is also reflected in informant responses, who varied as to whether they referred to gas as 'natural' (I1; I10; I11) or 'fossil' (I3; I5; I9; I12, I13), reflecting a discursive sign of approval or disapproval respectively. The tendency to view gas as the least worse option has nonetheless gained foothold, as emphasised by I13 and reflected in the views of I1:

> It's also the question of the big battle on gas. There was a big battle on coal and now everyone agrees that it contributes to climate change. This is another fuel and it's really not good for the climate, but somehow it was sold as not harmful despite the huge methane emissions. Also, it has not been regulated in the past, so I think there is also the perception (I13)

> Everyone agrees that gas is a fossil energy source and that it has a CO2 problem, to put it mildly. But it is less of a CO2 problem than with oil and coal (I1).

Not surprisingly then perhaps, the inclusion of gas in the Taxonomy was widely opposed. Firstly, its environmental impact was not subject to expert review nor any impact assessment in the CDA process itself (Allen 2022; Austria 2022), the Commission referred instead, to previous and unrelated reports to establish its importance as a transition energy source. Vocal objections against the alleged "blatant disregard for the scientific evidence" (Allen 2022) were heard from representatives for all major stakeholders to the Taxonomy. The PSF openly stated that gas cannot be considered sustainable from a perspective of climate credibility (EU Platform on Sustainable Finance [PSF] 2022), a concern that was echoed by several Member States (Schulze et al. 2022), Parliament members (Bellona 2022), the scientific community (ClientEarth 2022), civil society (ReclaimFinance 2022) and financial institutions (World Wildlife Foundation [WWF] 2022c; Institutional Investors Group on Climate Change [IIGCC] 2022). In fact, Brussels is currently facing legal action from four environmental groups[6], who hold that the inclusion of gas in Taxonomy "clashes with the European Climate Law and does not respect the EU's obligations under the Paris Agreement" (Romano 2022). Besides the alleged diversion from climate science-based policymaking and legal breaches, I3, I5 and I12 also highlight the incompatibility of gas with the TR's legal requirements for transition activities:

[6] ClientEarth, WWF's European Policy Office, Transport & Environment (T&E), and BUND (Friends of the Earth Germany).

> Art. 10.2 on transitional activities states that they must be best in class, not lead to the lock-in of carbon-intensive assets, and not hamper the development of renewables. Gas does all of these things (I3)
>
> It was common knowledge back then, that gas could not be considered a transitional activity because there are safeguards as to what can be considered transitional, you should not have low-carbon alternatives, it should not create lock-in etc. New gas infrastructure just creates lock in, that's how it is (I5)

The inclusion of gas was challenged in other words, on the basis of climate science, legality, and the TR criteria for transitional activities, exposing the highly contentious normative conflicts of knowledge generation that were present in the CDA process. Despite these vocal acts of delegitimation, it should not be underestimated that the Act draws on already established discourses that, whilst not necessarily popular within environmentalist camps or prudent investors, still stands a chance of resonating with broader audiences.

"Pragmatism in a time of crisis"

Besides prominent discourses around nuclear and gas specifically, the CDA also saw an enhanced focus on 'pragmatic policymaking'. Upon presenting the CDA proposal, Maired McGuinness, the EU commissioner for financial services, financial stability and the capital markets union, said that: "We need to move as fast as we can from the highest carbon energy sources like coal. During this transition, that may mean accepting imperfect solutions" (Naschert 2022, 1). In the Commissioner's opening remarks to the plenary debate about the CDA in the Parliament, she stated specifically that:

> Colleagues, we are in a time of great uncertainty. Today, we see what we think was the unthinkable – some Member States are re-opening coal fired power plants because of energy security concerns. I hope that my remarks clarify why the Commission believes that this Complementary Delegated Act is important for our energy transition. It is both realistic and pragmatic, given the very uncertain times we live in (Commission 2022b).

Taken together, the Commission clearly recognises that the CDA is suboptimal, but more important in the context of language is the framing of the Act as a matter of pragmatism in a time of urgent crisis. The EU Commissioner continued by saying: "I believe our credibility is actually enhanced by doing something that is difficult but necessary" (Naschert 2022, 2). The green label on gas and nuclear is hereby framed as a tough but highly necessary political decision – or the only viable option during a difficult time. I1 said that the Commission made strategic use of the political context – where a severe energy crisis was dawning on Europe and energy sources like gas were increasingly seen as a matter of geopolitical security – to pass the

CDA. This is also reflected in the EU commissioner's opening remarks to the Parliament the 5 July 2022, where she stated: "Given the urgency of moving away from Russian fossil fuels, we need to ramp up those investments with a renewed sense of urgency" (Commission 2022b). The framing of the CDA as the only viable political solution given the current political context also seem to have resonated with several respondents:

> If you say that gas is brown, then you have a very poor answer to the situation in Europe as of today. Because we do not have nearly enough and stable green energy to replace gas, which is the best fossil energy source in terms of emissions. We are very dependent on gas in Europe. If you say it is brown, you lose touch with realistic climate policy and transition (I8)

Other respondents talked of the CDA as the result of democratic compromise and political pragmatism (I1; I6; I7; I9; I11), which reflects the discourse's resonance in several stakeholder groups. What does this enhanced focus on transitional energy sources and pragmatic policymaking say about the previous Taxonomy approach? It indirectly signals that a dark green Taxonomy is unsuited to cater for the transition, discrediting the ability of renewables to cater for the shift to low-carbon energy systems alone. The central framings of the Act can therefore be said to steer the dark green Taxonomy in a more transition-focused direction. Where it initially served as a blueprint of the low-carbon economy to come, it is now a less idealistic and more pragmatic transitional map, addressing how to get there. The CDA thereby discredits the idea that leapfrogging into a sustainable energy system run on 100% renewables is possible, signalling that there is no way around transitional – or 'imperfect' – energy sources.

Discursive strength

This section has outlined the central discourses promoted in the CDA, showing how it draws on already established discourses of 'low-carbon nuclear', 'natural gas', and 'gas as a bridge-fuel' to legitimise their inclusion in the Taxonomy. The Commission arguably made strategic use of the political context, where the European energy crisis and the Russian war in Ukraine served to frame the Act as the only realistic and pragmatic solution. So whilst the Taxonomy itself feeds into already dominant interest-based framings, the justification narratives for the CDA might be said to reflect a more normative character, where the political context is used to emphasise the urgency of its adoption and strengthen the idea that the labelling of nuclear and gas as green is the only 'right thing to do'.

Given the resonance of the 'pragmatic and realistic policymaking' narrative in informant

responses, we might ask whether the Taxonomy suffers from a complexity problem. By tapping into already established discourses on nuclear and gas, the CDA arguably redirects focus from how they fit into the Taxonomy framework specifically to their role in the energy transition more generally. The CDA's successful norm-grafting might consequently have contributed to except nuclear and gas from being evaluated according to the TR-criteria. This discursive 'shift of forums' is arguably strengthened by the mere complexity of the Taxonomy framework, which cannot be expected to resonate with broader audiences to the same degree.

A norm should as previously noted be supported by a "shared understanding of acceptable actions" (Nyborg et al. 2016, 42). With regards to the Taxonomy, this would entail that its substantive content is by and large seen as legitimate by key stakeholders. Here, the Taxonomy faces a number of challenges, and particularly so with the adoption of the CDA. As this section has shown, the inclusion of nuclear and gas was widely disputed, exposing the highly contentious normative conflicts of knowledge generation present in the Taxonomy process. Let's recall the Dusík and Bond's (2022) warning that a poor application of the TR framework – where the criteria are deployed "softly or without due verification" (p. 95) – might trigger a slide back to an economic framing of sustainability, reversing the 'paradigmatic change in mind-sets' towards an ecological and more holistic understanding.

The disregard for PSF's objection to nuclear energy's fulfilment of the DNSH can usefully be understood as a case where TR criteria are deployed 'softly', where the substantial contribution to one of the environmental objectives – climate mitigation – seem to have trumped the need for circular economy-compatible solutions, signalling that some environmental losses can indeed be traded against economic gains. The scientific foundation for including nuclear was contested from various quarters, against which one would expect adoption of the precautionary principle. Not only is this EU custom, it is also inscribed in TR Art. 19.1(f), an inconsistency that was stressed by the PSF (2022). But then again, the Commission did not acknowledge that nuclear was as a case of scientific uncertainty, so it suffices to say that the scientific rationale for its inclusion was highly disputed, in what may be termed a relative softening of Art.19.1(f).

The inclusion of gas in the Taxonomy might likewise be seen as a case where criteria were applied softly. Findings indicate that the labelling of gas as green disregards Art. 19.1(f), that it is not best-in-class (I3; I5; I12), that it does in fact lead to lock-in of carbon-intensive assets (Szabo 2020) and hinders the development and deployment of renewables (I3; I12; I13). Legally speaking therefore, its inclusion is usefully understood as a case where TR criteria are deployed 'softly', which is also supported by PSF:

> The draft Complementary Delegated Act (CDA) takes a materially different approach to implementing the Taxonomy Regulation, focussing on energy technologies that are part of an energy system in transition but do not in themselves reach the substantial contribution levels required for the Paris Agreement or fulfil the DNSH performance requirements (PSF 2022, 5).

Based on these observations, I argue that Dusík and Bond's (2022) concern for 'soft deployment' of criteria was manifested in the CDA. The normative rationale for institutionalising 'ecological' sustainability arguably lost ground to material considerations, whereby the ambition level of sustainability only stretched so far as to suit the economic constraints of the current geopolitical context. Instead of pushing "strong sustainability into the heart of 'sustainable investments'" (Slootweg 2022, 101), the post-CDA Taxonomy might be said to lower the normative ambition to that of 'pragmatic sustainability'.

This does not mean that the Taxonomy will lose out of stakeholder acceptance altogether. As this section has shown, and whether or not one agrees with the CDA's content, the Taxonomy is undeniably strategically positioned within the discursive landscape, drawing on a number of dominant narratives and framings in climate change governance, that, whilst not necessarily popular within environmentalist camps or prudent investors, might still resonate with broader audiences. Attempts to win public acceptance can also expect to benefit from the political context, where a severe energy crisis now made worse by Russia's invasion of Ukraine can help legitimise the continued use of gas, as shown by the strategic focus on pragmatic policymaking. As for hypothesis 1, the Taxonomy must be said to promote not so much discursive shifts towards a normative rationale, but rather to feed into already dominant interest-based discourses, whereby there is a significant untapped potential to draw upon the latter to win further ground.

5.2 Promoting norm-related identities

This section will discuss how the Taxonomy promotes norm-related identities by means of three criteria. Where the first relates to whether investors value sustainable identities in the first place, the second speaks to how such identities fit with their social roles. These two criteria are merged under the heading 'sustainable identities' below. The section continues to discuss whether Taxonomy-alignment is essential to adopt such identities, which is done through the lens of market credibility.

Sustainable identities

First of all, it is important to pinpoint whether investors and corporations value sustainability-related identities in the first place. Given the prominent rise of the sustainable finance domain that was accounted for in Chapter 2, it is reasonable to assume that at least a segment of corporations and investors value sustainability-related identities. This is also supported by several respondents:

> They are so pressured to be green and environmental these days, so for any industry, it is better to be Taxonomy-compliant than not, so there's a natural incentive to do everything you can to be on the side of the good (I7)

> If you have two projects, one green and the other brown, it is likely that investors opt for the green for several reasons: social responsibility, reputation, and anticipation of 2050. It makes more sense to go green (I8)

In a similar fashion, Bauer & Smeets (2015) find that social identification plays a significant role in investment decisions: "investors want more than just a good return and low risk; they look for expressive benefits" (p. 122), indicating that market actors value non-economic benefits arising from having a sustainable identity. Apparently, investors generate a 'non-financial utility' if their portfolio matches their preferred social identities, whereby they experience positive social feedbacks. Sustainable identities consequently seem to be valued in corporate and financial circles.

Importantly however, norm-based identities of being a sustainable investor can be overrun by other, more dominant identities. Here, it is important to understand how investors value sustainable identities in relation to social expectations of showcasing profits in cases where these pull in opposite directions. One the one hand, Riedl & Smeets (2017) find that investors hold sustainable funds even if the expected returns are lower than with their conventional counterparts, indicating that social preferences can in fact trump cost-benefit calculations. A majority of informants, however, believe that profits will always have the last say for whether an investment is made or not:

> There is no doubt that "money talks". Profit and revenue will always be most important for investors (I12)

> The point is, will you accept to put your money in a green investment, but end up with lower returns? Thus far, people do not. That's the dilemma (I2)

Respondents and literature disagree as to whether investors and corporations will honour their sustainable identities when faced with a profit-related conflict of interest. Interestingly though, the potential conflict between sustainability and profitability is rhetorically downplayed in the

Taxonomy framework, which primarily draws on interest-based rationales to alter corporate behaviour (see section 5.1). The tool can thus usefully be said to promote a 'rational manager' identity to sustainable finance, which attempts to bridge the tensions between environmental convictions and economic growth by appealing to "market efficiency and logics" (Wright & Nyberg 2015, 127). Rather than singling out some behaviours as 'good or bad', it urges market actors to invest sustainably for economic reasons, framing sustainable investing as a matter of economic rationality, the resonance of which is also reflected in informant responses:

> I don't think the Taxonomy will get people to invest in sustainable investments per se. But I think there is a desire among investors to invest in sustainable economic activity because it has a lower long-term risk when you look at how climate change affects and the carbon price and everything (I12)

The 'rational manager' identity arguably serves to break down what might initially seem like a stark distinction between material and normative rationality, showing that the two can also be intimately connected. The interactive relationship between them can usefully be understood through the term *strategic social construction*, which refers to the process where "actors strategize rationally to reconfigure preferences, identities, or social context" (Finnemore and Sikkink 1998, 887). Just like rational decision-making is a natural component of any politically significant normative change, so too does dominant societal norms influence rational decision-making. By coupling a normatively desirable behaviour with economic rationality, the 'rational manager' identity can be expected to resonate well with the primary target group of the Taxonomy, namely investors seeking the perfect balance between sustainable identities and profits. This section has shown then, that investors indeed value sustainability-related identities, albeit for different – or perhaps correlating – reasons, and that the Taxonomy promotes the most rationally economic version of such, attempting to bridge the alleged conflict between the two.

The Taxonomy as an indicator

The next step is to investigate whether investors and firms perceive Taxonomy-alignment as essential to valuing themselves as sustainable. Has the Taxonomy managed, in other words, to establish itself as the primary gatekeeper to sustainability-related identities, and if so, how? This section will discuss the Taxonomy's potential to become the gold standard for sustainable investments through the lens of market credibility, accounting for its legality approach, coverage and scope, dual classification system, usability, scientific credibility, and ability to ratchet up ambitions with time respectively. Taken together, this is meant to provide a comprehensive picture of how attractive the Taxonomy is as a sustainable identity marker.

Legality

A major comparative advantage of the Taxonomy lies in the fact that it is the first *public* green finance standard in Europe. Where market participants have previously relied on private industry-led green labels, they are now able to prize themselves with an EU label of sustainability. Public standards have a comparative advantage in terms of credibility in the sense that they circumvent any potential conflict of interest between private interests and quality of disclosures (IOSCO 2021). The Taxonomy should therefore be expected to win significant ground in the sustainability standards market merely for being developed by a public authority.

A second promising feature of the Taxonomy relative to other standards is the mandatory nature of disclosures. Respondent 4 emphasised that:

> Large global equity funds care a lot about sustainability, not necessarily because they have an altruistic view of the world but because they themselves have to report their share of Taxonomy-alignment (I4).

Irrespective of whether financial actors are normatively motivated to report, they will do so because they have to. The Taxonomy will thereby be able to reach the most reluctant actors that have up until now refrained from participating in voluntary disclosing schemes. Finally, by moving climate-related corporate and financial disclosures from the voluntary to the mandatory sphere, the Taxonomy's and the Action Plan enables sanctions for non-compliance, providing it with more legal clout than its voluntary counterparts. In sum then, the legal standing of the Taxonomy provides it with a set of comparative advantages relative to voluntary and industry-led standards, against which it can be expected to – if not take over the sustainability-related identity market – at least become one out of several key indicators of such.

Coverage and scope

Whether Taxonomy-alignment is deemed essential to acquire sustainability-related identities also depends upon the coverage and scope of disclosures. Naturally, a Taxonomy that covers only a limited segment of the economy necessitates the use of additional standards for non-covered sectors, whereby the tool becomes an addition rather than the sole reference for sustainability-related identities.

The Taxonomy's disclosure regime is as previously mentioned based on the NFDR[7], which applies to large financial and non-financial corporations with more than 500 employees

[7] The Directive is currently under revision with proposals to expand the scope of companies to those with over 250 employees (Commission 2023b).

(Commission 2023b). As an example, large unlisted companies (e.g., IKEA), several high-emitting sectors (e.g., shipping), and the vast number of European small to medium sized enterprises – collectively responsible for 63% of all company-related GHG emissions (Gorgels et al. 2022) – do not fall under the Taxonomy's current scope. Some of these shortcomings are addressed by the revised CSRD, which includes a broader set of companies (Commission 2023b). The limited scope and coverage of the tool was nonetheless mentioned as a major weakness by several respondents:

> There will always be green investments that are not part of the Taxonomy because the TSC are not exhaustive (I11).

So, while there might be improvements with the CSRD, significant portions of the economy will still be exempted from reporting. Respondent 9 nonetheless remained positive towards the gradual implementation approach chosen:

> I think it's good that they do it carefully, that they tackle the large companies first and have it trickles down into the system over time. It's a great way to introduce something - the big ones take most of the work and then gradually it trickles down to the whole community. And I think that's very good, it's well thought out (I9)

The latter quote indicates that, while not fully comprehensive at this point in time, the Taxonomy reporting might come to spur extend organically to organisations currently exempt from disclosing under the NFDR, through chains of production etc. Another critique involves not the scope itself, but the Directive's methodology. Sectors with high employment levels have namely been found to be less carbon-intensive (Schütze & Stede 2021), which challenges the use of labour-intensity as an indicator for carbon-intensity. You end up in a situation where some, highly emission-intensive industries are exempted from reporting (e.g., air transport), whilst other, less carbon-intensive sectors are obliged to report (Schütze & Stede 2021). To design a reporting climate-related disclosure regime after labour-intensity might therefore be suboptimal in itself.

Another challenge of the Taxonomy's scope is that, since the NFDR only mandates financial actors who specifically market their financial products as 'green' to disclose on their Taxonomy-alignment, an investor can avoid disclosure requirements simply by not labelling their products as such:

> Investment decisions remain with investors, and it is entirely the choice of financial market actors to launch green financial products or not, and to determine the level of environmental ambition of such projects (Claringbould, Koch & Owen 2019, 20).

The mandatory disclosure regime applies, in other words, to financial products with explicit environmental objectives only. In practice therefore, disclosure on financial products operate according to a "comply or explain" logic, which leaves a large share of financial products unclassified. In terms of coverage and scope therefore, the current configuration of the Taxonomy is restricted to a limited set of economic activities, company sizes and financial products. Activities, sectors, and products who fall outside its scope will therefore need to look elsewhere for prizing themselves with sustainability-related identities, whereby it risks becoming an additional standard rather than the 'gold standard'.

The dual classification challenge

Concerns have been raised with regards to several aspects of the Taxonomy's institutional design however, which may challenge its market credibility. Firstly, the current dual classification system has been termed a market disadvantage, criticised for not paying sufficient attention to the transition, or path towards net-zero:

> The finance sector has been generally positive towards the Taxonomy, but there has been some criticism related to the fact that it is too little focused on the transition. You only see the greenest and forget that the most important thing is to convert those who are brown to something a little less brown (I6)

> If we were in 2030 or 2050, then yes, the criteria would have been good. But we cannot jump forward to 2050. And 2050 should of course be dark green, but on the way, there is something that is medium green and light green, there is something yellow and questionable and yet something brown, often linked to fossil energy. The point here is the importance of gradation since the world must go through a transformative process. That is the problem with the Taxonomy, which is dichotomous and forces the world into 'either-or' (I8)

This point was further supported by informant 7, who emphasised that with regards to financing, it is more important to have a credible transition plan than to be Taxonomy-aligned. The need for complementary information reflects the Taxonomy's relative inability to give a comprehensive account of firms' transition plans, which is also point echoed by I6:

> There is enormous growth in the market for sustainability-linked loans and bonds that are not linked to the Taxonomy. You can include Taxonomy criteria, but as a general rule, actors don't. A market for financial products has been created to deal with the transition-part outside the Taxonomy, which indicates that Taxonomy does not solve the entire problem (I6)

The challenges arising from the Taxonomy' binary classification system is also supported by Mormann (2020), who holds that, by drawing a clear line between suitable and unsuitable investments, the binary approach allegedly "fails to properly differentiate among companies –

on both sides of the divide" (p. 1067), pointing to the ineffectiveness of catering for a transition by labelling companies as either good or bad, since all major organisations must undergo significant change to cater for the transition. Linciano, Soccorso & Guagliano (2022) argue the contrary however, namely that a firms' transition will be reflected in their capital expenditure disclosure:

> Companies that need to transition will in fact benefit from the existence of the Taxonomy, as those capital expenses that these companies will bear to 'green' their business may be counted as 'green capital expenditure' (p. 218).

Furthermore, they hold that the tools' transitional focus is strengthened by the focus on the activity- rather than company level, which allow all companies to showcase their share of Taxonomy-alignment (Linciano, Soccorso & Guagliano 2022). The reason as to why there are mixed opinions about the Taxonomy's ability to effectively showcase a company's transition derives – according to several respondents – from the tool's reliance on relatively simple figures, with mere shares of Taxonomy-alignment. This might give a simple indication on the future direction through its capital expenditure disclosure, but investors who seek more comprehensive information will need to look for it elsewhere. Both perspectives are thus true to some degree.

The PSF's (2022) proposal to add an amber category for activities with intermediate environmental performance and a red category for unsustainable activities that cause significant environmental harm (p. 8) in an extended environmental Taxonomy should nonetheless be seen as an indication that the binary classification is by and large perceived as suboptimal. Importantly, respondents warn that, if this additional information ends up being more essential to investors that the Taxonomy-generated data, the tool risks becoming a check-the-box administrative task rather than a 'gold standard' for frequent reference (I4; I12).

Issues of usability

Besides the binary approach to classification, another aspect that will affect the Taxonomy's 'gold standard' status is its level of usability. The Taxonomy has been found to raise "several significant usability" challenges for investors and issuers (Pfaff & Altun 2022), where disclosers are found to experience difficulties in terms of providing the mandated information. Studies show that the DNSH criteria are particularly demanding in this regard: "Assessing alignment with the DNSH TSC requires granular data that in many cases prove to be unavailable" (Pfaff & Altun 2022, 11), a challenge echoed by respondents (I2; I4; I5; I6; I8):

> At the moment, no one is winning anything, because the criteria are not good enough (…) and I don't mean in terms of level of ambition – as in not green enough – no, if you're a company that reads the criteria and wants to comply, you will in many cases not understand them (I5)

That several stakeholders raise the issue of usability – related to the inadequacy of the TSC, the complexity of information collection or the lack of methodology coordination between different EU jurisdictions – points to the fact that, for the time being, the Taxonomy will only be able to generate sustainability data of a suboptimal quality.

Scientific credibility

Whether firms and investors will see Taxonomy-alignment as essential to prizing themselves as sustainable regards that of its scientific credibility, ultimately speaking to its ability to reduce greenwashing. The Taxonomy's ability to reduce greenwashing was clearly a polarised topic among respondents. On the one hand were the optimists (I2; I4; I6; I7; I8; I10; I11), none of which portrayed the tool as a silver bullet solution, but held that it still had potential:

> There are many companies claiming they are sustainable. Now these will have to calculate their Taxonomy-alignment and might see that it is quite low, so at least now, you need to properly justify your sustainability claims. I think it will prevent greenwashing to a large extent, but not overcome all problems (I6)

> We see that companies are very engaged in green obligations and social bonds etc., and it's very good that the Taxonomy provides some direction here. It means that people cannot come up with fun and alternative solutions, which I think is very important. I am a big supporter, or, although I am sceptical to some parts of the Taxonomy, it is obvious that it is a step in the right direction (I4)

Common for these respondents was their tendency to focus on the Taxonomy's contribution relative to the previously unregulated sustainable finance domain. Their point of reference was non-regulation altogether, against which they perceived the Taxonomy as a step in the right direction. On the other hand were the more explicitly critical voices (I3; I5; I12; I13):

> The ability to foster transparency and corporate accountability is severely hampered by the existential threat that the CDA poses to the Taxonomy. If it is approved, then we have a real issue of institutionalised and EU-approved greenwashing (I3)

Common for these respondents was their tendency to focus on the Taxonomy's early potential. Their point of reference was the pre-CDA Taxonomy, which they by and large portrayed as ambitious and honouring the science-based approach. What happened with the CDA then, which challenged the scientific standing of the Taxonomy to a point where it according to some went from reducing to institutionalising greenwashing? All respondents agreed that the Act

served to politicise the Taxonomy, and allegedly so at the expense of science:

> It seems like the EU thought they could set technical screening criteria in a strictly science-based and technical manner, but it has turned out highly politicized (I10).
>
> The EU is losing its credibility because it's putting politics into what should be science. It is a highly, highly political issue, and not relying on conclusive scientific evidence is a really bad sign (I13).

What we can conclude from these responses is that the optimist category of respondents spoke of the Taxonomy as a whole, with no mention of how the CDA and how it would affect the tool's ability to amend greenwashing. The more critical voices, however, emphasised the CDA specifically and how it threatened one of the core objectives of the Taxonomy:

> If the Taxonomy has confidence in the market and is based on scientific evidence, it can fulfil its ambition, which is to reduce the risk for those who want to invest sustainably, and thus have more people invest sustainably. But if the Taxonomy becomes a disclosure tool that has no trust in the market, then I think it will worsen the situation, so it all depends on what will happen with the CDA (I12)
>
> I am a bit concerned about the political process when, as an example with nuclear and natural gas, if the Taxonomy becomes a political tool, and politically affected, it will be less useful for investors (I7)

Here, both respondents observe that, as a green finance standard, questionable scientific credibility can trigger a loss of trust amongst investors. The diversion from science-based policymaking is therefore likely to have several negative effects on the Taxonomy's normative standing. Taken together therefore, its ability to reduce greenwashing must be understood as weaker when compared to the pre-CDA Taxonomy. If the tool gets a reputation for being a political compromise more than a science-based standard, it will be a less attractive reference point for sustainable corporate identities.

Ratchet up ambitions with time

Having outlined some prominent challenges with the Taxonomy's as a sustainable identity marker, this section will discuss whether the tool's institutional design is suitable to amend these shortcomings. It will in other words assess the Taxonomy's ability to improve its market credibility and normative standing over time. Firstly, with regards to information quality and usability challenges, addressing some of the issues identified above depends on the ability of disclosers themselves to establish new systems and procedures for reporting. Other, more systemic issues, however, depends on the continuous development of the Taxonomy methodology and approach. The majority of respondents referred to the Taxonomy as an iterative process, and that reaching a point of satisfactory disclosures will take time:

> The Taxonomy is a work in progress, it will take time. Customers and others will understand that this process is difficult and that it will be improved over time. Reporting will likewise not be perfect in the beginning but improve over time (I10)

Responses reflect a key success criterion for that of transparency tools more generally, namely their ability to adapt to changing conditions, and optimally to include mechanisms for periodical feedback and review (Fung, Graham & Weil 2007). Here, it is important to recall that the Taxonomy and its related Delegated Acts are living documents, whose thresholds and methodology are subject to continuous evaluation and potential revision. Institutionally speaking therefore, the Taxonomy should be relatively well positioned to adopt a 'test-and-learn' governance approach with systems for continuous monitoring, evaluation, and learning.

An example of such is found in the permanent mandate of the PSF, who is charged with updating the Taxonomy to reflect new scientific, technological and market developments. This signals the long-term dedication of regulators to continuously revise and update the tool so that it does not become outdated. A concrete example of their work is evident in the proposal for an Extended Environmental Taxonomy (PSF 2022), which answers the critique for the tool's binary approach by suggesting a more gradual classification of activities.

As for the Taxonomy's scientific credibility, findings thus far have emphasised the negative effect of the CDA on such. Where this recent event might serve to lower expectations to the Taxonomy's ability to alter its climate ambitions, the Act should also be understood as the lowest common denominator outcome of a democratic process, where the inability of EU Member States and key stakeholders to find common ground resulted in a suboptimal classification from a climate-perspective. This was pointed out by I9, who spoke of the CDA as an unfortunate, but necessary step in the democratic process:

> You have to be careful. When you first ask people to be loyal to such an extensive system that requires a lot of work, a lot of money, a lot of everything, then you must not subsequently start eroding that system's credibility. That's why I don't think it's very wise to include gas. But sometimes that's the only way to get ahead with the agenda when you cooperate with so many countries (I9).

This might lead us to think of the CDA as a lowest common denominator outcome. According to institutional scholars, one might think of such outcomes as the necessary first step to get a regulation through the democratic, legislative procedure. When institutionalised however, the newly established norm can be combined with a successive ratcheting up of ambition (Chayes & Chayes 1993). The potential of the Paris Agreement for example, is not said to lie in the

ambition of national targets nor in its enforcement approach, but in its ability to attract broad participation, which can partly be attributed to the lowering of ambition initially (Tørstad 2020).

But if we choose to be optimistic and perceive the CDA as the lowest common denominator outcome, the effectiveness of such still demands that ambition does in fact increase over time. Is the Taxonomy well suited to cater for such a ratcheting up of climate ambition? The TR does as previously mentioned demand that TSC be evaluated and reassessed every three and five years for transitional and dark green activities respectively. This mechanism can usefully be compared to the progression principle of the Paris Agreement, which was designed to create a successive 'race to the top' of states' climate target ambitions (Tørstad 2020). Institutionally speaking therefore, the Taxonomy holds some promise in terms of strengthening its climate credibility successively. There are concerns about the lack of a clear trajectory in this regard however:

> No clear trajectory has been set for its successive reduction. We fear that we have to put up a fight every time it is up for discussion, and this also creates uncertainty for investors. If it was made clear, how much would be reduced each year until zero in 2050, then it would have been a very "clear trajectory". But we didn't win that battle, so we have to take that fight (I12)

Referring to the politicisation of the CDA, the respondent feared that the same will occur each time the criteria are up for evaluation, resulting in limited improvements only. Another point raised is how a clear trajectory would alter the market predictability for nuclear and gas, which would be useful for investors looking to place their assets in such projects.

What we can draw from these observations is that, gaining market credibility relative to other, more established standards should be expected to take time, for the mere sake of information quality of early disclosures. The Taxonomy tool and surrounding institutional structure does indicate regulators' dedication to a 'test-and-learn' government approach however, with an intention to keep it updated in the unforeseeable future. The same be said with regards to the CDA, where the continuous evaluation of TSC holds some promise to strengthen the climate ambition in the long term, even if this could have been improved with a clear trajectory for the successive reduction of gaseous activities. This indicates that there is still room to win back some of the normative strength that was lost to the CDA.

Market credibility

Taken together then, how well does the Taxonomy perform as a standard and should it be

expected to become the main reference around which corporate actors choose to build their sustainable identities? Whereas the following discussion outlines the Taxonomy's market credibility within its own jurisdiction, the tool's potential influence at the global scale is discussed further in section 5.4. By and large, the Taxonomy generates much optimism in terms of its capacity to improve the current system. By standardising disclosure information and imposing a new reporting regime, many stakeholders have trust in the Taxonomy's ability to enhance transparency and improve the information basis for sustainable investing:

> In general, I think the Taxonomy will strengthen access to information and reporting practices (I10)
>
> All in all, the financial industry is positive about the Taxonomy, it means that they get better data from their customers, borrowers, and investors and can set goals accordingly. In that sense, it provides a better data basis as well as an overview of the climate exposure in one's own portfolio (I6)
>
> The Taxonomy will alter transparency in some ways. After the technical screening criteria were published, the Taxonomy became very concrete. The companies and financial markets are discussing ESG and sustainability issues on a whole different level now than only 2 years ago (I11)

That the Taxonomy constitutes a step in the right direction is also supported in literature (Schütze & Stede 2021; Lucarelli et al. 2020). Mario Nava (in Linciano, Soccorso & Guagliano 2022) argue for instance, that the Taxonomy has served to concretise the EU's sustainable finance strategy, giving it a clear sense of direction by substituting principle-based and voluntary arrangements with technically defined performance thresholds. But if the Taxonomy is generally perceived to improve the transparency around corporations' environmental performance, there is undeniably also room for improvement in terms of market credibility. The above sections have identified a number of key challenges in this regard, including its scope and coverage, its binary approach, issues of usability, and perhaps most essentially – its scientific credibility. To gain market credibility relative to other, more established standards should therefore be expected to take time, for the mere sake of information quality of current disclosures.

Given the identified strengths and weaknesses, should one expect the Taxonomy to substitute other standards with time? Here, the majority of respondents believe it will serve as an addition rather than a substitution to other standards (I1; I2; I4; I7; I8; I10; I12) since the tool relies on relatively simple figures. Importantly, the Taxonomy's market credibility might also arise from having other standards adopt and/or adapt to its methodology and performance thresholds, which I4 believed would become the case:

> I don't think it will outperform, I rather think that other standards will adapt to Taxonomy, to build up under Taxonomy. When the EU sets this sort of demand, then you just have to deliver, there's no way around it. You cannot close your eyes but have to adapt your standard to it (I4)

Rather than taking over the market entirely then, the Taxonomy's primary route towards becoming the gold standard for sustainable investments is arguably more likely to derive from other standards' adaptation to the Taxonomy.

This section has showed that that investors value sustainability-related identities and that the Taxonomy promotes the most rationally economic version of such, attempting to bridge the alleged conflict between the sustainability and profitability through the promotion of a 'rational manager' identity. It further discussed the Taxonomy's status as a 'gold standard' as a measure of whether it has managed to establish itself as the primary gatekeeper to sustainability-related identities. This showed that, while the Taxonomy is by and large perceived to improve transparency around corporations' environmental performance, it still suffers from a number of challenges, including its scope and coverage, its binary approach, issues of usability, and its climate credibility in the aftermath of the CDA. Some of these challenges might be improved with time, given the Taxonomy's institutionalised system for continuous assessment and review. All in all, the objective of becoming the gold standard of sustainable investments is more likely to derive from other standards' adaptation to the Taxonomy rather than it taking over the market entirely. As for hypothesis 2, while the Taxonomy must be recognised for defining and promoting norm-related identities, its potential in this regard is arguably much greater than in its current configuration.

5.3 Mobilising pride and shame

This section will start by outlining how the Taxonomy mobilises pride and shame, which is summarised in a discussion about its underlying sustainable investment approach. It continues to account for how the social expectations established by the Taxonomy and CDA respectively, discussing how they might accelerate the adoption of the sustainable finance norm.

Praising the green

The institutional design of the Taxonomy distinguishes between sustainable activities on the

one hand, and non-classified on the other, singling out those dark green activities which are deemed compatible with a future low-carbon economy. This binary classification is rather effective in spotlighting the best-in-class performers:

> When you think about it it's actually very logical, because you single out the very ones who can actually contribute, the investments that will cut emissions and lower the environmental impact (I2)

That the Taxonomy singles out some corporate behaviours as normatively appropriate enables the mobilisation of pride for companies with a high share of Taxonomy-alignment. The tool's effectiveness in this undertaking must was arguably negatively affected by the CDA, however. The dual classification system means that, by the labelling gas and nuclear as green, the distinction between dark green and transitional activities is blurred, and this for the benefit of the latter, which – despite its inferior sustainability performance – is granted the same positive social feedbacks as their dark green counterparts. The Taxonomy's initial effectiveness in praising norm-leaders was thereby reduced with the adoption of the CDA.

Blurring the brown

On the other hand are the non-classified activities, which are bunched together in a 'grey' category. As emphasised by I2 and PSF alike, this is a very heterogeneous group of activities:

> It's a very diverse bunch that doesn't qualify as green. It is those who do not qualify because they should never – such as oil – and then the ones who are covered by the Taxonomy but don't meet the criteria, and then you have the ones for which they simply couldn't set any thresholds, and finally, the ones with low impact (I2)

> The current design of the Taxonomy does not intend to convey a negative signal over all (…) non-aligned or not-included activities, it simply started with the key priority to provide clarity on green classification at the top end of environmental performance levels (PSF 2022, 5).

Several scholars have pointed out that, by reducing this great variety of economic activities to two categories only, the Taxonomy is badly suited to spot environmentally harmful, or 'brown' activities (Esposito, Mastromatteo & Molocchi 2021; Chiapello 2020). What they all point to, is that singling out significantly harmful activities would prevent them from 'hiding' amongst the great variety of grey activities and provide investors with a more representative picture of disclosers' environmental performance. Chiapello (2020) even calls the Taxonomy's exclusive focus on green finance a case of 'poor political targeting':

> We are in a situation of someone who has to go on a diet and only counts the number of salads eaten, not the number of ice creams. A reorientation of financial

> flows would suggest that less money would go into brown projects, which is not the case, because green finance is not developed to the detriment of brown projects (p. 26).

A great majority of respondents raise the same concerns about the Taxonomy's ability to spot environmentally harmful activities (I2; I3; I4; I6; I7; I8; I10; I11; I12):

> What was done, was a green Taxonomy, but the improvement could be to develop a transition Taxonomy, and that would be very valuable in this area (I7)

The Taxonomy's dark green approach is in other words found to be less effective in identifying normatively undesirable investments. Since the dark green approach has been subject to much negative feedback, the PSF (2022) proposed to complement the Taxonomy with additional environmental performance categories. This proposal is still under consideration, but would according to several respondents meet much political opposition:

> It is very controversial to single out categories of investments which are not desirable, and just ending up in a category that says you make significant harm, nobody wants that (I2)

> A transition Taxonomy is a good idea in theory but will probably not work in reality (…) It is much easier with a binary approach politically speaking, since not everyone agrees on what should be categorised as brown (I10)

So, while there is a proposal to extend the Taxonomy's dark green approach in a more gradual direction, the political feasibility of this proposal is questioned. The identification of norm-leaders is clearly perceived as less controversial than singling out their norm-laggard counterparts. Sufficient to say here however, is that the current configuration of the Taxonomy is well suited to identify sustainable activities – albeit less effectively after the CDA – but refrains from distinguishing environmentally harmful activities altogether.

Deliberate non-shaming?

Having analysed how the Taxonomy presents different investments, how then, does the tool propose this information to be used? In other words, does it encourage investing in green activities and discourage investing in non-aligned activities respectively?

The Commission explicitly states that there is no obligation on investors to invest in Taxonomy-aligned activities and that the utilisation of the tool to plan one's sustainability transition is completely voluntary (Commission 2021a). There is thus no pronounced moral devaluation of conventional investment practices. In fact, the TEG (2020) explicitly states that "while all economic activities have a role to play, not all economic activities will substantially contribute to environmental goals" (p. 8), emphasising the Taxonomy's dark green approach which leaves

a large share of the economy non-aligned. The tool does little, in other words, to encourage divestment from non-aligned assets and rhetorically refrains from naming and shaming. What does this say about the Taxonomy's sustainable investment strategy?

Having shown that the Taxonomy effectively singles out best-in-class investments and diverts focus from the worst-in-class, it clearly distances itself from a 'negative screening' approach to sustainable investing, whereby companies engaged in unsustainable activities are excluded from a portfolio, as exemplified by the fossil fuel divestment movement (Mormann 2020). By singling out norm-leaders, the tool arguably promotes the opposite, that is, a 'positive screening' of companies whose activities contributes to sustainable development. One might say therefore, that the Taxonomy's exclusive focus on 'praising' rather than 'shaming' is in line with a positive screening approach to sustainable investing. In support of such, the Taxonomy's key objective is to *re-orient* capital to sustainable investments, not just to withdraw from unsustainable assets, which is the exclusive focus of a divestment approach (Mormann 2020). Its focus lies on offering guidance instead, as to where investors can reinvest their funds.

This section has shown that the Taxonomy's institutional design is better suited to praise norm-leaders than to name and shame laggards. Importantly though, this is not necessarily an institutional efficiency slip, but rather a deliberate choice of investment strategy, where shareholder engagement and gradual transition is favoured over divestment. Assessing the effectiveness of this approach is beyond the scope of this thesis. Here it suffices to say that the current configuration of the Taxonomy hampers the effective mobilisation of shame, resulting in a relative weakening of the tools' central enforcement mechanism – naming and shaming.

Social expectations of change

This section will assess to what degree the Taxonomy creates social expectations on actors to conform to the new norm of sustainable investing. The Taxonomy does not, as previously mentioned, explicitly state any social expectation on actors to conform to the sustainable finance norm. Indirectly however, several aspects of the Taxonomy and the Action Plan indicate that sustainable finance governance is here to stay and that regulations will become stricter with time – i.e., signalling that social expectations on norm conformance will grow.

Firstly, the Taxonomy is often referred to as the crown jewel of EU's sustainable finance regime. Among the many EU tools and labels that are directly based on the Taxonomy criteria we find the EU Ecolabel, the EU Green Bond Standard, and the EU Climate Benchmarks

Regulation, some of which are still under development. Other EU policies make specific reference to the Taxonomy, as is the case with the Recovery and Resilience Facility and EU regional, cohesion and social funds, which both make use of the Taxonomy's DNSH criteria (Commission 2021a). Furthermore, the TR mandates any future EU or national label for green corporate bonds or financial products to utilise the Taxonomy criteria. The centrality of the Taxonomy criteria in this vast spectrum of policies and tools sends a strong signal that the sustainable finance norm promoted through the Taxonomy framework is here to stay, which is made explicit in the Commission's communication:

> Investors are free to choose what to invest in. However, it is expected that over time, the EU Taxonomy will be an enabler for change and encourage a transition towards sustainability (Commission 2021a, 1)
>
> Estimates and early testing of the climate taxonomy criteria show a low overall Taxonomy alignment today in companies' activities and investment portfolios (between 1% and 5% with many companies and investment portfolios standing at zero). While this figure is expected to rise significantly with the implementation of the Green Deal, it highlights the extent of the transition still required towards carbon neutrality by 2050 (Commission 2021a, 6)

Important in this regard are the indications that the Taxonomy, which was originally developed to guide private finance in a sustainable direction, will increasingly be used as reference point for public finance schemes:

> As part of the Sustainable Europe Investment Plan and the European Commission's next multi-annual financial framework (…), the InvestEU Programme, the single budgetary guarantee of the EU, will aim to leverage EUR 279 billion of public and private financing. The European Commission is considering how the Taxonomy can be applied in the climate and environmental tracking and sustainability proofing guidelines of the InvestEU Programme. The Commission will also reflect on how the Taxonomy might be used to guide the policy objectives of other parts of the public sector (TEG 2020, 9)

The EU clearly signals in other words, that the Taxonomy will remain a central feature of the sustainable finance strategy in the years to come, whilst also increasing the regulatory intensity of the sustainable finance domain (Möslein & Sørensen 2018). Since "simultaneous or well-sequenced introduction of several policy instruments may support the psychological perception of a major change" (Nyborg et al. 2016, 43), these combined strategies might serve to strengthen the social expectations on market actors to invest sustainably.

Secondly, the time and resources that has gone into providing such a comprehensive and technically advanced tool also signals that the Taxonomy is here to stay. As emphasised by Nyborg et al. (2016), "costly public investments (…) provide strong indications that a policy

(and behaviours supported by that policy) will prevail" (p. 43). Exemplified in the 600-page technical annex to the Climate Delegated Act that outlines sector-specific environmental performance thresholds, the Taxonomy might just have become "too big to fail". The public investments do not stop there however, as indicated by the PSF's permanent mandate and the fact that the Delegated Acts are living documents where TSC will undergo revision and potential amendments every 3rd or 5th year. While it cannot compare to the costs of physical infrastructure projects, the resources put into the Taxonomy nonetheless signals that sustainable finance regulation is a key priority of the EU and will continue to be so in the years to come. This was also supported by several informant responses:

> I do not see that there will be any standards other than Taxonomy in the future. After all, they have spent years coming up with these criteria, so it would be strange if they failed (I4)

Thirdly, the fact that TSC are to be revised and might be subject to change each 3rd or 5th year signals at least the intention that the ambition level will increase over time. Actors who take transition risk seriously should in other words prepare themselves, not only for an increase in regulatory intensity, but also in the environmental ambition level of future regulations, as pointed out by TEG (2020):

> The TEG expects that some quantitative technical screening criteria will be tightened over time (…) the TEG has signalled a recommended trajectory for many of the quantitative climate change mitigation criteria (p. 16).

So while the Taxonomy refrains from explicitly stating any expectations to actors on how to invest, there are several indications – in the tool's institutional design, in the many tools and regulations that utilise it as point of reference, and in the regulatory intensity of the domain more generally – that the sustainable finance norm promoted by the Taxonomy is here to stay. Targeted actors are in other words indirectly encouraged to adopt the new norm as soon as possible to reap the first-mover benefits.

Social expectations of the CDA

Having accounted for how the Taxonomy and its institutional context have established social expectations of change, how then, was this affected by the CDA? Most importantly, and in terms of content, the Act signals that nuclear and gas will play key roles in the green transition:

> Natural gas will continue to play an important role in terms of consumption and generation until 2030, after which we expect a decline to 2050 (Commission 2022a, 2).

That the world is in dire need for transitional energy sources to support the development of low-carbon energy system is not necessarily newsworthy in itself but is regularly stressed by prominent actors like the IPCC (2022). One might say therefore, that the Taxonomy plays into already established social expectations around the future use of these energy sources. But labelling them as green in the Taxonomy goes further than recognising their future use. It signals the importance of these energy sources for the EU on the one hand, and the Union's dedication to secure their continued availability on the other, against which it seems unlikely that they will be subject to a rapid increase of regulations in the near future. As stated in a 2022 InfluenceMap report, the inclusion of gas gives "leverage to the sector to push for further concessions to fossil gas in the future" (InfluenceMap 2022, 3). Investors looking to place their money in nuclear and gas are thus provided with a certain level of market predictability. Social expectations as to these energy sources continued use is arguably even further strengthened by the long-term nature of nuclear- and gas infrastructure, since costly investments indicate that the behaviours promoted through a policy will prevail:

> As for fossil gas and infrastructure, you know that this must be phased out, it is infrastructure that takes a long time to build up, and that requires very large investments, and once that infrastructure is there, you can argue that it should be there much longer, because otherwise it will be a so-called 'sunk cost' or 'lost investment', and you don't want that (I12)

The CDA here signals a clearer market trajectory for the gas and nuclear market, showing that the EU is willing to use its regulatory clout to secure their continued availability. Another source of concern regards the democratic procedure of the CDA, which is outlined further in Section 5.5. In short, several prominent stakeholders have criticised the CDA process for diverging from custom democratic procedure and principles of good governance, which allegedly catered for vested interests' continued influence over the Taxonomy criteria (Bellona 2022; Austria 2022; PSF 2022). This puts the legitimacy of the Act itself under scrutiny, but also that of the EU as an institution more broadly, which in turn lowers social expectations towards its ability to increase the Taxonomy's environmental ambitions over time. If the CDA set a precedent where vested interests were prioritized at the expense of democratic procedure, stakeholders might lose confidence in the Union's ability to stand up against powerful veto players the second time around, when TSC are renegotiated.

Social expectations gone wrong?

Several respondents point to Taxonomy-related social expectations as the reason for why the

CDA ended up being adopted. This is paradoxical in the sense that increased social expectations are intended to strengthen the norm for sustainable finance, but might have ended up doing the opposite, if the CDA is understood as a relative weakening of the Taxonomy's sustainability approach. What happened, according to a majority of informants, was that the Taxonomy triggered a 'fear' in market actors that they would lose out of funding if they were not aligned.

> It was a misunderstanding where industries started to think that if they were not fully Taxonomy-aligned they would miss out on finance (…) and this more or less led to the discussion on nuclear and gas (I7)

> Real economy players became afraid of costs, how it would affect their possibilities of mobilising finance. At this moment, only 2-10% of the economic activities are Taxonomy aligned (…) and when number is that small, it is not probable that financing will stop overnight (I11)

Several respondents pointed to the Taxonomy's linkage to public financing schemes – like the EU's recovery fund for the Covid-19 crisis, the Recovery Resilience Facility (RRF) – as a key reason as to why these corporate 'fears' were triggered:

> The Taxonomy was linked to the Recovery Resilience Facility. The Taxonomy was used as a measure of what can be classified as a green investment, because 30% of investments in that fund must be green. This is where it became highly political because large countries said, well in that case, you want gas to be classified as green, therefore we're going to change the Taxonomy criteria, and the same thing for nuclear (I3)

> There was the Recovery Resilience Facility, that was linked to the DNSH principle (…) so there was a link that was explicitly made between public finance schemes and the TR, and therefore suddenly, people we're saying, "okay, now the Taxonomy will drive European public finance schemes, we are not going to receive any kind of money (…) if we're not in the Taxonomy (…) This politicized the Taxonomy. The linking of any kind of public money to the Taxonomy, particularly since the criteria had not been written yet (…) it politicized the drafting of the criteria. The Commission should have already had the criteria, before starting to think about their use. It should have thought a little bit more about the timeline, been a little more careful (I5)

What these responses point to is that, paradoxically, strong social expectations of change served as rationale for industry actors and their respective Member States to mobilise politically for the inclusion of gas and nuclear (this point is further elaborated in section 5.5). So where potent social expectations could have strengthened the norm for sustainable finance, they might have ended up doing the exact opposite. This draws attention to the importance of timing social expectations correctly, as was poignantly lamented by I5.

To summarise, this section has shown that the Taxonomy's institutional design effectively singles out sustainable activities but allows the significantly harmful activities to hide amongst

in a highly heterogeneous 'grey' category. The effective mobilisation of pride is arguably blurred by the CDA however, which grants transitional activities the same positive social feedbacks as dark green ones. So while it is undoubtedly better suited to mobilise pride than it is shame, the effectiveness of the former has also been questioned. I have further argued that the Taxonomy established potent social expectations of change, but that expectations to its environmental ambition as well as its institutional ability to alter such with time was weakened with the CDA. Ironically, this might have been triggered by strong social expectations initially. So while the Taxonomy still mobilises some pride for norm-followers, there is undeniably room for improvement in the adoption of this normative strategy. As for hypothesis 3, the Taxonomy is only partly successful in its mobilisation of pride, and not at all in its mobilisation of shame.

5.4 Mobilising transnational networks

This section will discuss the relative strength of the EU as a gatekeeper in climate-finance nexus and accounts for how it draws on strategic partnerships to communicate a strong normative stance on sustainable finance. In continuation, it elaborates upon whether the Taxonomy will become a global predecessor for green finance standards, and the potential ripple effects of the CDA in other jurisdictions.

EU's regulatory role

The then called European Economic Community was founded to facilitate the movement of goods and service across borders. Its initial purpose was that of a market-making project and can still usefully be described as an organization primarily tasked with "the creation, maintenance, and regulation of a liberal market order (Weiss & Wilkinson 2018, 273). Today, the EU internal market represents the largest "economy" in the world in terms of GDP (Weiss & Wilkinson 2018). The continuous efforts towards greater economic integration and operation of the EU internal market is often singled out as the reason for why a variety of other policy areas has come under the scope of EU jurisdiction (Buonanno & Nugent 2013).

The justification for EU environmental policy for example, is often portrayed as a matter of 'market failure', to which the promoted solution is the enhanced harmonization of environmental practices to improve the cost/pricing structures (Buonanno & Nugent 2013, 181). A related example is the centrality of standardisation to secure fair competition in the

liberal market structure. Used partly as a means to prevent competitive disadvantage for European industries, product standardisation strengthened its role as a global regulator. Simply because external actors must conform to EU's standards in order to access the single market, it has made the EU "one of the most significant suppliers of regulatory standards in the global economy" (Weiss & Wilkinson 2018, 275).

As for environmental regulation, the EU has provided significant leadership in the international arena and is generally recognised as an advocate for "high regulatory standards and tough emissions targets in the global politics of climate change" (Weiss & Wilkinson 2018, 278). It championed the adoption of the Kyoto Protocol under the UN Framework Convention on Climate Change in 1997 and launched the world's first emissions trading system (EU ETS) in 2005, which is often portrayed as ambitious in terms of pricing carbon even if it has been questioned on the basis of effectiveness (Buonanno & Nugent 2013). More recently, the EU has been a firm advocate of international climate diplomacy and delivered ambitious emissions reduction targets under the Paris Agreement (Weiss & Wilkinson 2018). In 2019, the Commission presented the European Green Deal, a roadmap which sets into legislation the political ambition of reaching climate-neutrality by 2050 and proposes a full reorientation of the economy to that purpose. The Green Deal was complemented with the Fitfor55 Package in 2021, a policy package that would answer to the raised ambition of cutting 55% of emissions by 2030 (Commission 2021b). It is against this backdrop that the EU has come to be perceived as a global leader in environmental and climate change governance.

With regards to financial regulation, the EU has established itself as a central player - both internally vis-à-vis its Member States and on the international arena – since the 1990s (Mügge 2013). Its governance position was further strengthened in the aftermath of the financial crisis, the end of which saw EU emerge as the primary financial regulator globally (Mügge 2014). This is also reflected in the sustainable finance domain, as evident in HLEG's (2018) stated ambitions:

> The report is globally relevant, and we encourage other countries to make use of the recommendations to inform their own policy choices and help build sustainable finance at the international level (p. 2).

Taken together, the EU's role as a front-runner on both environmental and financial regulation internationally fortifies its governance credibility, which is further strengthened by it being a supranational organisation with legislative primacy over Member States. Conclusively therefore, the EU might rightfully be considered an important gatekeeper in terms of regulatory

influence, both regionally and internationally.

Finding common ground

The development of the TR and the Climate Delegated Act reflected a successful mobilisation of a variety of transnational networks, as evident from the highly heterogeneous group of stakeholders involved in the Commission's expert groups (See Appendix D, E & F). This is supported by Ahlström & Monciardini (2021), who in their research of regulatory dynamics in the EU sustainable finance domain show that an initial close-knit community of norm-leaders expanded into a broad coalition of civil society and financial actors that coalesced around a common understanding of sustainable finance, where the relationship between sustainability and finance was seen as complementary, and finance was perceived as a "powerful means for achieving positive social transformation" (p. 199).

In terms of highlighting the strategic mobilisation of transnational networks, it is worth mentioning that of the finance sector itself, whose influence on EU's sustainable finance strategy is indicated by several factors. Firstly, the governance process reflects a high level of stakeholder involvement by financial actors. A quick look at the member lists of the Taxonomy-related expert groups reveal that financial actors were well represented, outnumbering all other stakeholder groups (see Appendix D, E and F). In HLEG for instance, 12 out of 20 members represented the financial actors, banking and insurance (Appendix D), and the same with TEG:

> The Taxonomy was really intended for the financial sector, which is why the TEG was structured that way - hence 'logical'. The balance of the TEG made sense because you wanted an instrument that the finance sector could use (I3)

Secondly, the Taxonomy draws on a number of sector-specific concepts and framings to establish a strong unifying message across the climate-finance nexus, the most prominent of which is the climate risk discourse (see section 5.1). While the framing has been criticised for simplifying the complex and interactive dynamics of climate risks into a 'manageable' construction through rational decision making (Wright & Nyberg 2015), there are undeniably strategic networking benefits for regulators and financial actors in making use of it. By according climate risks a monetary value, financial actors are able to calculate, compare and optimise their risk strategies thereafter, ultimately making "climate change manageable within a corporate capitalist economy" (Wright & Nyberg 2015, p. 47). The discourse thereby serves to rhetorically align the objective to stabilise global financial flows with the climate change agenda, allowing regulators to leverage on the untapped resources of private finance– i.e.,

making significant international resources available – and gives finance a central role in future climate governance since solutions are increasingly conceptualised within its domain (Wright & Nyberg 2015). Regulators and finance have undeniably also found common ground in the 'business case' and 'private finance' discourses, as accounted for in 5.1.

The EU's success in mobilising the finance sector is also reflected in informant responses, who indicate the resonance of the sustainable finance norm amongst financial professionals:

> A sign that the Taxonomy actually works is that, since it is created for shareholders and finance, CSR and environmental professionals have to a very limited degree heard about it thus far. It is I, who work with capital markets, that was first to grasp it. And that's good, it means that the Taxonomy's aim – to allocate capital to sustainable projects – actually works. And it is important that more people with my background and type of job work with sustainability (I4).

The same respondent continues to point out the material benefits of partnering with financial professionals, which is contrasted to the lack of 'organisational muscle' in sustainability departments:

> It is also very strategic of course, since finance, or the CFO section, is the central muscle in any organization and has greater executional power than the environmental section. I sit on all the investment decisions that the company makes – a couple of billion NOK a year – and I can decide to throw in another 20-30 million NOK in environmental measures on a project to meet the Taxonomy requirements. The CSR people does not have that power, simply because they are not in charge of the purse (I4).

This points to the material advantages of mobilising the financial sector. But besides making new international resources available for the climate cause, it arguably also has great potential to multiply the "opportunities for dialogue and exchange" (Keck & Sikkink 1999, 89) since financial actors can be expected to have a high social standing amongst investors and corporations. They have a comparative advantage in communicating the issue to target audiences – i.e., themselves – and are arguably well positioned to promote norm implementation by incentivising investees to adopt the new norm (Keck & Sikkink 1999). In contrast to Mitchell & Carpenter's (2019) focus on normative rationales however, the common ground for EU regulators and finance seems to lie in their shared preference for economic – or material – rationales (see section 5.1).

Notably, the 'climate risk', 'business case' and 'private finance' discourses are not limited to financial actors, but resonates with other networks as well. A 2019 report by WWF and AXA serves as an example of how environmental NGOs and the insurance networks have come

together around a shared understanding of environment-related risk, which is reflected in common identification of both the problem issue as well as promoted solutions:

> Crossing the ecological limits of our planet may also put the profitability of some investments at risk. Certain financial returns are inextricably linked to nature through the dependencies and impacts of economic activities they finance (p. 6)
>
> Insurers, in their capacity as risk carriers, can leverage their expertise to provide solutions. We also have a strong role to play by engaging with the investment community, not least in sectors and companies that are committed to "transition" towards more sustainable activities (p. 4).

The climate risk discourse also has strong resonance in academic networks (Batten, Sowerbutts & Tanaka 2016; Battiston et al. 2017; Esposito, Mastromatteo & Molocchi 2021), which in sum reflects how a broad coalition of stakeholders came together with a shared understanding of the problem at hand.

To mobilise environmental NGOs, civil society organisations and academia comes with another set of network benefits. In contrast to financial networks, their support is not likely to foster an acceleration of resources – since their primary weapon is of a non-material nature: their voice and expertise respectively. Where civil society organisations are able to grant the Taxonomy democratic legitimacy (Weiss & Wilkinson 2018), the endorsement of climate scientists is likely to strengthen the tool's climate credibility - i.e., providing assurance that the TSC are aligned climate targets under the Paris Agreement and European objective to reach net-zero emissions in 2050. Having these networks endorse the Taxonomy and its underlying values might therefore be more effective in mobilising normative legitimacy for the tool. The latter is arguably also strengthened by these networks' non-profit nature, exempting them from any potential accusations of conflicts of interest.

To sum up, the Taxonomy's norm-building campaign reflect a high degree of common ground with the finance sector itself, both in terms of common discourses, institutional design and target group resonance, but also with civil society and academic actors that embrace the international momentum for sustainable finance as a positive development. Ahlström & Monciardini (2021) trace the rapid emergence and expansion of the EU's sustainable finance domain to its inherent hybridity and the ability of influential governance actors to "speak the language of both financial business organisations and CSOs[8]" (p. 202), showing that regulators were relatively successful in developing and communicating a strong unifying message with

[8] Civil society organizations

finance, unions and civil society around 'sustainable finance': "This dynamic coalition of heterogeneous stakeholders emblematises that despite different frames, a variety of actors can align towards a joint interpretation" (Ahlström & Monciardini 2021, 203). Regulators' relative success in mobilising both civil society actors, academia and not the least finance itself seems to have proven normatively beneficial in several ways, backing up the Taxonomy's sustainable finance norm with democratic legitimacy, scientific legitimacy and material clout.

The CDA: Losing common ground?

If the early development of the Taxonomy was characterised by a significant degree of common ground between a great variety of stakeholders, the CDA process saw many of these strategic partnerships being challenged. The previous foundation in academia, civil society and partly also finance itself now came under pressure from the political content of the Act:

> The TEG worked well. It was a good, constructive working environment. The Platform is different and larger, more difficult to find a solution that fits everyone. And also, back then, there was no hype around the Taxonomy, making it easier to come to solutions. Which means that they had a lot more freedom, a lot less scrutiny (…) Now, every single decision, every little thing, is highly politicized (I5)

What these observations point to, is that the development of the Taxonomy grew more politicised with time, whereby it became increasingly difficult to develop a common understanding of the tool's normative content. While all respondents confirms the increased level of politicisation, a number of them points to the CDA in bringing about this shift:

> The Commission presented this as a very open process, and it is also about having trust in the financial markets and trust in the population, because it is something that emerges as a classification tool. They have done that throughout this whole process up until the CDA, which diverged from what they said they were going to do, and what they have done before (I12)

The CDA's escalation of conflict in the initial coalition of stakeholders is reflected firstly, in academia. As was accounted for more in-depth in section 5.1, the Commission's own expert group vocally objected to the act (PSF 2022) and their lamentations were echoed in a joint letter from 226 scientists, NGOs and financial institutions, who stressed that "we have no time for false solutions" (ClientEarth 2022). Relative to that of the early process, the CDA can therefore be said to have alienated the scientific community, who disagreed to the inclusion of nuclear, but especially to that of gas, in the Taxonomy framework.

A similar reaction came from environmental NGOs and civil society. The Director of the WWF

European Policy Office warned that the Act "would rig Europe's financial system against the planet" (WWF 2022a) and officially resigned from the Taxonomy expert group together with four other environmental NGOs[9]. Similar concerns were echoed in a joint letter from 92 civil society organisations, stating that the CDA "transformed a "science-based" framework aimed at channelling investment towards sustainable activities into a highly politicized document that bends to the views of fossil gas and nuclear supporters" (ReclaimFinance 2022, 1). Client Earth joined forces with three other environmental groups – all of them previous TEG and/or PSF members – in a legal action against the inclusion of gas (Romano 2022). The opposition was also evident in informant respondents, where the majority of civil society representatives raised serious concern about the CDA and some even held that it made the situation worse than if the Taxonomy had not existed in the first place. Notably, civil society opposition to the Act primarily drew on legal and scientifically based arguments, where only one out of five resonated with the 'pragmatic policymaking' rationale.

From the financial sector, a WWF briefing (2022b) reports that "ten Dutch Pension Federation, Blackrock, the $50-trillion Institutional Investors Group on Climate Change, (IIGCC), and the UN Principles for Responsible Investment (UNPRI) have criticised moves to include either one or both[10] in the Taxonomy" (p. 2). Where IIGCC warned that the inclusion of gas might trigger a 'race to the bottom' (IIGCC 2022), UNPRI – which comprises over 4000 financial signatories – said the proposal would "thwart the scientific integrity of the EU Sustainable Taxonomy (…) tarnish investors' interest to use it as an instrument for driving sustainable investments, and lead to market fragmentation and risk of greenwashing" (UNPRI 2021, 2). Opposition was also heard from the European Investment Bank, where President Werner Hoyer stated that "If we lose the trust of the investors by selling something as a green project, which turns out to be the opposite, then we cut the feet on which we are standing" (WWF 2022b, 2). Especially vocal on the inclusion of gas, the opposition from norm-leading investor networks reflected that even segments of the finance sector disagreed with the new direction of the Taxonomy:

> Financial actors are not happy about this, they think it is very bad. After all, they were the ones who wanted to have a Taxonomy in the first place and this was not what they wanted (I12)

Taken together, this section has shown that the CDA alienated several prominent networks from the Taxonomy. That enhanced levels of conceptual conflict is also supported by Ahlström &

[9] The European Consumer Organisation (BEUC), Birdlife Europe and Central Asia, Environmental Coalition on Standards (ECOS), and Transport & Environment.
[10] Referring to gas and nuclear energy activities.

Monciardini (2021), who argue that civil society and business organisations gradually diverged from their initially shared narrative, developing "two sharply different ways of framing sustainable finance: sustainability as a financial opportunity versus finance as a means for social transformation" (p. 199). The previously common narrative in turn gave way to diverging rationales and policy objectives, which allegedly contributed to lower the ambition of reforms (Ahlström & Monciardini 2021). Their findings is arguably reflected in the CDA, which alienated prominent transnational networks and brought about a decrease in the Taxonomy's environmental ambition.

Even so, it is worth noting that, despite the objections by prominent sustainable finance networks, all interviewed financial professionals maintained a generally positive attitude towards the Taxonomy. They agreed that the CDA became highly politicised, were more likely to adopt the 'low-carbon nuclear', 'gas as a bridge-fuel', and 'pragmatic policymaking' discourses to legitimise the CDA. Relative to other stakeholder groups, they spoke of the Act as a democratic and pragmatic compromise and only one out of four raised concerns of how the CDA would affect the Taxonomy's core objectives negatively in the long term. So whilst the CDA was met with severe criticism in a few norm-leading financial institutions, conventional investors seem less pessimistic of its alleged detrimental impacts.

Let's recall here, that whilst the objections from norm-leading financial institutions are negative from a normative standpoint, the most important thing is to remain on good terms with conventional investors, whose funds will add to the bulk of sustainable finance available (I12). The above findings suggest that the Taxonomy seems to have succeeded relatively well in this undertaking. So while the opposition to the CDA undeniably weakened the tool's overall legitimacy, the greatest harm was arguably caused to networks of a less essential social standing in the conventional finance domain. One should not preclude therefore, that a least-common denominator outcome can be forgiven by a critical mass of norm-followers, given the resonance of the 'pragmatic policymaking' discourse in this stakeholder group. The CDA clearly revealed the relative importance of some partnerships over others, where it undeniably prioritised material benefits – i.e., economic feedbacks – over climate credibility and democratic legitimacy – i.e. social feedbacks.

A global predecessor?

Having established that the EU is a significant gatekeeper in sustainable finance governance

and shown how the Taxonomy's initial success in mobilising different transnational networks lost momentum in the CDA process, should we expect then, that the Taxonomy becomes a global predecessor for green finance standards?

> It's hard to say, the US tends to be a bit more principle-based than what it is in Europe, and given that it is made very regulated at a detailed level, I'm a bit sceptical as to whether they will manage to get the whole world on board. Indonesia has launched its own principle-based Taxonomy and got it up and running, for instance. There are many ideas about what is the best solution, so I don't think we should expect that all go with the European solution (I6)

As emphasised by I6 – and which was also echoed by others (I7; I8) – there are different approaches to designing green finance standards out there and the EU way of doing is not necessarily the preferred solution elsewhere. This is partly because the EU has adopted a sector-specific and highly technical tool that, whilst undoubtedly concretising what sustainability is (I11), also requires enormous amounts of resources to establish and continuously update (I5). Other jurisdictions – like the example with Indonesia – might therefore prefer a more principle-based approach to standardisation, which is less burdensome administratively.

Despite diverging preferences, the EU does have – as previously mentioned – a long history of exporting regulatory standards to the rest of the world. In his research on global convergence of green financial policies for instance, Larsen (2021) finds that the EU Taxonomy's scope and design has in fact served as an inspiration to green finance taxonomies in countries like South Africa, Bangladesh, Indonesia, Russia and India to mention a few. Where some of these have more or less copied the Taxonomy's entire institutional design, others have adopted the 'significant contribution' and/or the DNSH criteria. The only exception being that of Mongolia, whose taxonomy is highly influenced by China's green bond taxonomy (Larsen 2021).

This points us towards what one could rightfully term the EU Taxonomy's most prominent competitor in the global green finance standards – China's Catalogue – which I8 pointed to as a global predecessor for other taxonomies. China and EU are two of the largest green finance markets in the world, but adopt slightly different approaches in their standards. Where the latter is an exclusive transparency tool for instance, the former "includes compulsory measures, such as fines and punishments, to encourage the institutions to obey" (Yang 2021, 7). The EU Taxonomy is also better aligned to other international standards and reflect more ambitious environmental objectives than its Chinese counterpart, allegedly paying more attention to "the overall effect of economic activities on climate change and the whole environmental system" (Yang 2021, 7), even if this might be questioned in the CDA' aftermath. The EU Taxonomy's

comparative advantage lies thus, in its highly technical nature, its alignment with international standards, and higher environmental standards, which all serve to alter its market credibility. But also in the degree to which the general public and civil society can contribute to its revision, as was established in the subsections above.

Based on these observations, should we expect the EU Taxonomy to be the preferred point of reference for other green standards internationally? Where respondents remain ambivalent towards the alleged global primacy of the Taxonomy (I6; I7; I8), Larsen (2021) maintains that the EU's bottom-up governance approach does indeed make it a more credible standard-setter globally. Importantly however, he does not dismiss China's regulatory initiatives in the field:

> China acts as a policy pioneer based on its top–down policymaking model and the EU acts as a standard setter based on its bottom–up model. Although China and the EU have competing governance and policymaking models, their differences may have been an advantage to scaling up green financial policies as they complement each other through different roles (Larsen 2021, 358)

According to Larsen (2021), without China's regulatory initiatives "green financial policy mainstreaming might develop more slowly because no country would be pioneering policies that the EU could build on" (p. 367). These points are further supported by Yang (2021), who note that the EU and China are currently cooperating around the development of a universal taxonomy, which cements the two jurisdictions' regulatory influence in the global sustainable finance domain even further. To conclude, the EU Taxonomy arguably stands on the shoulders of the Chinese Catalogue, but stands a higher chance of mainstreaming its sustainable finance approach internationally, given its bottom-up governance approach. While it is beyond the scope of this thesis, it is interesting to speculate whether China's stricter enforcement approach may trigger the introduction of compulsory measures in the EU Action Plan further ahead.

Besides inter-jurisdictional influence on sustainable finance policies, the Taxonomy might also strengthen the norm for sustainable finance through other means. According to the 'trading-up' argument, unilateral action by powerful actors like the EU can "generate costly impacts and, by implication, incentives for other units to adopt similar policies" (Bernauer, Gampfer & Kachi 2014, 133), triggering a harmonisation of policies internationally. The Taxonomy can usefully be understood as a case of EU unilateral climate action that has economic impacts on firms located outside the EU jurisdiction. If these market actors want to maintain their access the EU single market – whose attractiveness is evident by its share size, being the world's single largest economy in GDP (Weiss & Wilkinson 2018) – they must conform to EU standards. One might therefore expect a significant uptake of Taxonomy reporting amongst market actors located in

external jurisdictions that are currently operating in the EU single market.

This latter point is also raised by Vu (2022) and Slootweg (2022), who both point to the Taxonomy's impact in that of developing countries specifically. The former emphasises that 50% of the funding for projects in developing countries in fact derive from developed countries and their institutions. Since these in turn are bound by the emerging taxonomies – many of which are influenced by the EU Taxonomy – "the mindset change is not restricted to the richer part of the globe" (Bond & Dusík 2022, 124). As such, the sustainable finance norm promoted by the Taxonomy can be expected to take hold in other parts of the world, firstly by serving as inspiration for other jurisdictions' sustainable finance taxonomies, and secondly by having external market actors' who seek access to the EU's single market adapt to the new regime.

Global ripple effects of the CDA

The previous section established that the Taxonomy might come to influence external sustainable finance practices both top-down – via other jurisdictions' institutions – and bottom-up via the market itself. How then, should we expect its influence to be affected by the CDA?

The CDA has as previously mentioned been criticised on both legal and procedural grounds. Its adoption might therefore harm the credibility of the EU as an institution and question its leadership role in climate governance:

> These unwarranted proposals are in direct contradiction with President von der Leyen's Green Deal and the EU ambition for higher climate targets. They would also undermine and discredit the EU's global climate leadership" (ClientEarth 2022)

At the more specific level, however, it is the concrete labelling of nuclear – and perhaps even more so, gas – as green that can be expected to have more concrete effects on the direction of sustainable finance policies globally. Several respondents feared that the Act would trigger lowered environmental ambitions in sustainable finance standards elsewhere:

> The issue is not so much the Taxonomy itself, but the ramifications that come from there. The Taxonomy is a transparency tool, but once its established officially, that gas is green, then you get ripple effects that I don't want to image what they could be, because they can pollute all of the Fitfor55 Package, it can pollute a lot of initiatives, for example in Japan, China etc. and give excuses to countries with big gas industries (I3)

The concern for the CDA's ripple effects is also supported in a number of stakeholder communications. A 2022 InfluenceMap report shows for instance, that the South Korean

taxonomy mirrored the EU quickly after the CDA's adoption, "initially excluding fossil gas then later moving to include it" (InfluenceMap 2022, 3). Similar concerns were raised by Tsvetelina Kuzmanova, who spoke to the allegedly wide-ranging and deteriorating effects of the CDA's adoption in a Greenpeace webinar (Greenpeace 2022):

> Unfortunately what happened with the decision to label gas and nuclear as green, is that we started seeing, across the world, a race to the bottom in terms of ambition. The countries that originally had excluded and not even considered adding a fossil fuel to their list of green investments started looking to Europe (…) So very quickly after this discussion started in Europe, we saw the Korean taxonomy including gas shortly after the vote, and also including nuclear. We keep observing similar developments in other jurisdictions as well, and as I mentioned it is not only within the remit of taxonomies and how we look at green labelling of financial investments, this has resulted din some very difficult conversations around the world, conversations with the African Union, conversations at COP, and for various reasons, not only because of this, but we have witnessed that the language for 'fossil fuel mitigation' has been included and we now have the language of low-carbon that could also include gas as a fossil fuel. The EU is failing to take the lead globally, in putting the plug on what was the main cause of climate change and our main efforts to tackle climate change (Kuzmanova, quoted in Greenpeace 2022)

Speaking of the larger ripple effects of the CDA, Kuzmanova stressed that the labelling of gas as green influences, not only the development of green finance standards elsewhere, but also climate change discourses more broadly, where fossil fuels are now rhetorically included as low-carbon alternatives in forums way beyond EU's jurisdiction. This serves to highlight that, what Europe decides to label as 'green' has consequences way beyond its borders and can establish long-lasting path dependencies in the global governance of climate change. Whilst the long-term international effects of the Act remains to be seen, the CDA rightfully puts the EU's global leadership role in climate governance under scrutiny.

To sum up, this section has argued that the EU is a key gate-keeper whose strategic partnering with transnational networks holds significant promise in terms of spreading the sustainable finance norm globally. Where regulators were successful in mobilising a great variety of networks in the early development of the Taxonomy, their shared interpretation was partly shattered in the CDA, which alienated prominent civil society and academic networks. I continued to discuss the Taxonomy as a potential global predecessor for sustainable finance standards. This showed that the tool is well positioned to influence financial practices beyond EU's jurisdiction, and the unfortunate effects of such in the aftermath of the CDA, which allegedly triggered a global race to the bottom in environmental ambition of sustainable finance taxonomies worldwide. Whilst undeniably a severe blow towards the Taxonomy's normative

strength, the question remains whether the CDA's opponents make up a critical mass strong enough to pose a serious threat to the tool as a whole. As long as the majority of the norm-supportive group remains intact, the Taxonomy might be able to stand against the storm.

5.5 Shifting forums

This section analyses whether the Taxonomy's shift of forums – that is, its contribution in moving sustainable finance legislation into EU legislation – served to strengthen the norm for sustainable finance. This question is discussed against the shift's ability to marginalise veto players on the one hand, and to reward norm-leaders on the other.

Restricting the power of definition

Given that the Taxonomy – together with the Action Plan on Sustainable Finance – enshrines a number of new corporate disclosures in EU law, a legal shift of forums undeniably took place. Corporate environmental disclosures and green finance standards did as previously mentioned gain prominence in a polycentric governance landscape characterised by voluntary self-regulation, whereby private actors had substantial definition power over what 'sustainability' actually entails. The Taxonomy is the first public attempt to technically define what a sustainable investment is[11]. Through its adoption, the EU claims the authority to substantively define what was previously lost in translation amongst a plethora of competing interpretations. The Taxonomy thereby contributes to enhancing public control over the normative agenda by strengthening the relative definition power of democratic institutions at the expense of corporate actors – a process which entails a relative marginalisation of the private sector. How might this serve to strengthen the Taxonomy's normative standing?

Importantly, proponents of voluntary standards do not necessarily hold that a shift of forums from self-regulation towards legally mandated reporting will be more effective in strengthening the norm for sustainable finance. They argue that non-mandatory schemes have a comparative advantage in terms of speed, scope and adaptive capacity, and that they are just as able therefore, to accelerate normative strength (Bulkeley & Newell 2015). Without necessarily disapproving

[11] Green finance taxonomies were pioneered by China (Lund Larsen 2021) but these had a more principle-based approach to define sustainable investments, in contrast to the EU's technical and sector-specific approach.

the Taxonomy as a tool, both I6 and I8 both indicated for instance, that the market has been successful in governing certain aspects of the green finance sector, an achievement which would preclude the need for state-led regulation:

> I think it will have to improve a bit as you move forward (…) like the products on sustainability-linked loans and bonds for example, if you get a proper market for it, then it is an example of the market having created solutions that can work and help to incentivize the transition (I6)

> It started as a bottom-up process within the financial sphere (..) and we have developed a voluntary standard, the Green Bond Principles, that works reasonably well, so actors fear that, if the political level steps in, it might become too strict (…) If the financial industry takes that responsibility itself and creates a good system – it's not perfect, but no system is perfect – does it make sense then, for the political level to step in to regulate? As long as it works well? (I8)

In a similar vein, Zetzsche and Anker-Sørensen (2022) applaud that the Action Plan does not go beyond 'nudging' and warns against the use of stronger incentive mechanisms in the future, arguing that there is not enough knowledge of how financial markets and sustainability factors interact. Drawing on reports from the European Fund and Asset Manager Association and the Securities and Markets Stakeholder Group, they discourage a prescriptive legislative approach, arguing that institutional inflexibility will create unintended barriers to market development (Zetzsche and Anker-Sørensen 2022). There are several voices who remain sceptical in other words, towards the Taxonomy's legal shift of forums from a perspective of effectiveness, holding that markets are just as – or even better – suited to define 'sustainability'.

By and large however, there seems to be broad support for enhanced public regulation and harmonisation of the green finance sector, as evident from the EU's major regulatory push (Möslein & Sørensen 2018). To distance the private sector from the governance process might be normatively beneficial for several reasons. Most important in this regard is that it increases the democratic control over knowledge production – which can circumvent any potential conflict of interest arising from the profitability imperative in processes of standardisation. As a result, proponents of enhanced regulation argue that it enables stricter regulations than the private sector should be expected to voluntarily impose on themselves (Martini 2021; Nedopil, Dordi & Weber 2021; Chiapello 2020; Esty & Karpilow 2019). In theory therefore, the shift of forums might therefore serve to increase regulatory ambition and reward a more exclusive group of norm leaders than a less ambitious private-led standard would do.

The Taxonomy's shift of forums enhances the definition power of democratically elected institutions at the expense of private actors and the benefits of such, primarily that of

circumventing potential conflicts of interest between environmental ambition and profitability motives. Looking beyond the formal institutionalisation then, how did this shift of forums actually play out in practice?

Marginalising veto players

If the previous section found that the Taxonomy's shift of forums enhanced the definition power of democratic institutions at the expense of private actors, this section looks more in detail at how the marginalisation of veto players played out. Here it is useful to distinguish between financial actors on the one hand, and industry actors on the other. If we start with the former, section 5.4 found that the finance sector was very well represented in all Commission-appointed sustainable finance expert groups. So while their influence over the tool's design and ambition undoubtedly was subject to democratic institutionalisation, they remained a central actor in the governance process, which was criticised by Chiapello (2020):

> For the time being, supranatural regulators have the same shortcomings: proposals are drawn up by working groups that are essentially made up by of representatives from the financial industry (p. 23)

Chiapello (2020) questions the effectiveness of the Commission-appointed expert groups on the same basis as private self-regulation. When financial actors themselves make up the majority of experts, the very same conflicts of interests that the shift of forum could have served to circumvent are given a central place at the agenda. She fears in other words, that finance's involvement will serve to lower the level of regulatory ambition, whereby the formal shift of forums leads not so much to a marginalisation of veto-players but an institutionalisation of their continued definition power (Chiapello 2020).

As for industry players, a quick look at the members of the Commission's expert groups on sustainable finance reveals that industry in particular was relatively poorly represented (see Annex D, E and F). Completely absent from HLEG and the initial TEG, I2 explained that a round of objections served to bring them on board, not as formal members, but as technical industry experts whose advice were sought on a demand basis:

> Industry experts were included after objections from business that their interests were not represented. But they learned from their mistakes so when the PSF was presented later, industry was represented (I2)

In TEG's follow-up constellation PSF, industry was better represented from the outset, as evident from Annex F, but I2 maintained that their influence on the criteria remained limited:

> PSF has another composition, but it appears to me as somewhat "fake legitimacy" on behalf of industry, like "now we've brought you in, so now you are represented", while in practice I don't think the industry has much definition power in these criteria (I2)

Relative to other affected stakeholder groups, it seems that industry was subject to the highest level of formal marginalisation. Looking beyond the formal involvement of industries however, I3 argues that industry associations were relatively successful for instance, in opposing the suggestion to have a gradual – rather than binary – classification of activities:

> Business Europe - representing real economy industries – is group that has always lobbied against an unsustainable Taxonomy precisely because it doesn't want the reputational consequences that come with it. This blocks major transparency, which is a fundamental requirement for a proper transition (I3)

There are diverging accounts thus, of the latter group's continued influence, not only with regards to the environmental criteria, but also of the institutional design of the tool. How then, did this play out in the CDA? Contrary to the initial finding that the Taxonomy's shift of forums marginalised the influence of veto players for the benefit of normative strength, several respondents argue that the CDA was in fact highly influenced by powerful vested interests:

> The CDA is a result of financial interests, lobbying and political horse-trading. I don't think it has much to do with democracy. Generally speaking, the Taxonomy has been good. There have been big battles and discussions, which there has to be. But with the CDA, all of that has gone out the window (I12)

What I12 points to, is the impact of corporate- and state lobbyism in the CDA process, which allegedly stripped the Taxonomy of the benefits arising from its initial forum-shifting. Here, respondents highlight the importance of two private sector-initiated misconceptions in mobilising political clout behind the CDA's adoption. The first speaks to the idea that key industries would lose out of funding were they not classified as green in the Taxonomy, which was partly accounted for in section 5.3:

> There's this conflict between the financial sector and corporates and corporates have blown the Taxonomy completely out of proportion by saying, "if we have to disclose all this, and if we have to show that we're not Taxonomy-aligned, then we're not going to get any financing ever" (I5)

> Much of the fossil gas industry lobby have said that they will be without access to finance in the future (…) And that is not true, based on what the Taxonomy is, because it does not say that anyone should invest in anything, but they have been very successful in getting that narrative on the ground (I12)

According to these respondents (I3; I7; I11; I12; I13), this narrative gained considerable hold despite the Commission's assurances:

> The mere fact that a company does not have Taxonomy-aligned activities does

> not mean that conclusions can be drawn regarding the company's (…) ability to access finance (Commission 2021a, 13).

The idea was in other words unfounded and/or exaggerated, which is also supported by early estimations showing that only 1% to 5% of current economy is Taxonomy-aligned, making it highly unlikely that the remaining 95% to 99% would lose funding over night (I7; I11; I12).

The second misconception was not so much a narrative in itself, but rather the distortion of such. Whereas the Taxonomy is by legal definition a transparency tool, the promoted causal relationship between Taxonomy-alignment and access to finance served as backdrop to discursively challenge that purpose (I3; I5; I7; I11; I12; I13):

> The Taxonomy is, legally speaking, an instrument to fight greenwashing in the financial sector. The Taxonomy's impact and purpose has been distorted, in my view, for instrumental reasons for certain industries in order to turn it into an instrument of energy policy or an instrument of industrial policy, which it's not. It's simply a transparency tool (I3)

What these respondents point to, is that the mere complexity of the Taxonomy made it an easy target for skewed narratives (I12), and that powerful lobby actors made strategic use of this complexity to distort its original purpose. This in turn enabled the idea that industries would lose out of finance to take hold. Taken together, the two misconceptions was said to create the 'perfect storm' for including labelling gas and nuclear as green:

> The narrative they have put forward is that they are going to lose funding, and there is no other way to do it, that there are no other alternatives than fossil gas (…) It is a combination of different factors that became the 'perfect storm', which resulted in the CDA (I12)

These observations suggest that powerful corporate actors maintained significant influence over the CDA process of standardisation. Where their formal power of definition was indeed restricted by the Taxonomy's shift of forums, they were allegedly able to make strategic use of the Taxonomy's complexity and plant narrative misconceptions to mobilise political clout behind the CDA's adoption. That corporations were relatively successful in their political lobby efforts in the CDA process is supported by an InfluenceMap report (2022), and an open letter signed by 226 scientists and NGOs, which accused the Commission for caving into "the demands of the gas lobby" (ClientEarth 2022, 2). That the Commission departed from the Taxonomy's original purpose is also supported by PSF (2022):

> The existing green Taxonomy was never intended to include every activity in the economy and must transition because emissions are currently too high or significant harm is present. The draft CDA approach appears to reinterpret that purpose (PSF 2022, 6).

Whether or not a result of industry lobbyism, the PSF's critical response to the CDA indicates that the Taxonomy's purpose had been somewhat distorted for the benefit of gas and nuclear. This section's findings indicate that industries were relatively successful in influencing the perception of the Taxonomy and how it would affect financing opportunities, which arguably strengthened the rationale for adopting the CDA. So where the shift of forums from voluntary self-regulation to EU jurisdiction had the potential to strengthen the normative standing of the Taxonomy, the resulting marginalisation of veto players ended up being less clear-cut than expected, and especially so in the CDA process.

Catering for co-option?

Important to note in this regard, is that the influence of private actors in political decision-making processes does not occur in a vacuum. Where the above section have shown that they have been formally invited to participate in the governance process through expert groups and stakeholder consultations, it is worth noting that much of their influence is also channelled via their respective Member States, as noted by respondent 11:

> Many sectors have been scared of the Taxonomy (…) and of course, when they are scared of getting finance, they might have politicians that they will call (I11)

We should hence expect private sector interests to be clearly reflected in the positions of their respective Member States, who advocate for their views via the Council and Parliament. At this level of institutionalisation however, several respondents and stakeholders raised concerns about the democratic process of the CDA, as well as the Commission itself in catering for vested interests. If we start with the legalities, the very choice to develop TSC in delegated acts has been criticised. In this type of administrative legislation, the Council and the Parliament delegate responsibility to the Commission to translate policy principles into technical criteria, whereby the acts circumvent a full legislative process. The TSC of the Taxonomy proved a highly political matter however, which they are unsuited to deal with (I1; I2; I3; I5; I7; I12):

> The Commission already took some freedoms by saying it should be a delegated act (…) Actually, if we are being very, very rigorous, the criteria, the Taxonomy itself, should be in the Taxonomy Regulation. But nuclear and gas especially, these should not have been the Commission's responsibility, it's way too political, way too political for them to deal with it. It should have been the Member States dealing with it themselves, and the Parliament (I5)

While the decision to use delegated acts can indeed be criticised on these grounds, several respondents emphasised that the choice was made before the Taxonomy became politicised:

> Choosing a Delegated Act was done back in the days, before people grasped what this actually was. I doubt whether they could have made it a Delegated Act today, because it has received so much attention (I2).

Yet others stressed that TSC could not have been subject to a full legislative process given the mere size of the Climate Delegated Act alone. Agreeing upon 600 pages of highly technical criteria amongst the Council and Parliament would according to these respondents be nothing short but impossible, whereby the choice to use administrative legislation makes sense (I2; I3; I5; I7; I12). Still others highlighted that the Commission had been delegated this responsibility in full accordance with democratic process and that any concern arising from such cannot be blamed therefore, on the Commission itself:

> Of course we can discuss the balance of power, but we need to look at it from the legal side of view, and in the end, that has been balanced, because the Commission was given this mandate (I11)

So while the use of delegated acts is indeed problematic, the decision to use them must be understood against the contextual backdrop as well as the infeasibility of other options. Another, and perhaps more puzzling concern, was raised about the choice to merge nuclear and gas in the same Act. A delegated act proposal is not subject to adjustments but simply approved or vetoed as it is (Buonanno & Nugent 2013, 110-111). This means that, by clumping the two energy sources together, the EU legislature is given a package deal: Either they approve that both gas and nuclear energy is labelled as green, or they reject the inclusion of both. Several respondents commented upon how this affected the CDA's adoption:

> It is very smart to merge them, because you have a group of Member States that are strong advocates for nuclear power, and one that is highly opposed. And the group that is highly opposed to nuclear are strong advocates for fossil gas, while the group that is in favour of nuclear power is against the inclusion of fossil gas. By merging the two, you ensure that both groups vote in favour and that no one opposes. If they had been separate delegated acts, I don't know if either of them would have been adopted. France had opposed fossil gas and Germany had opposed nuclear. It's something you do quite often, but right here it has - in our view - disastrous consequences (I12)

What these observations suggest, is that the adoption of the CDA was facilitated by the Commission's choice to clump nuclear and gas in the same Act. Respondents also refer to the decision as a strategic move by the Commission, which raises questions about their motives:

> The delegated acts gives much power to the Commission, but they don't want to be vetoed either, so that's why they go about with these informal processes before presenting the proposal, to make sure it is approved in the end. The Parliament and Council can only veto the final proposal, so the Commission will have to

> come forward with a draft that will pass, so Member States were involved ahead of the final proposal (I2)
>
> The Commission is completely overworked and there is an incredible amount to do, and then there is probably a need to get some victories, and it must go through the Council, which has a perpetual battle with the Parliament about who has the most power and where after all, the Council usually wins, so this is probably a rather extreme version of it (I12)

These quotes indicate, not only that the CDA was the result of informal dialogues between the Commission, Council and Parliament prior to the proposal's presentation, but also that the executive body compromised more than was necessary in order to get a 'victory' (I12). In continuation of such, I5 questions the legitimacy of the Commission in this process:

> It was Member States that got everything they wanted. And it's very weird that the Commission lost so badly to Member States even though in order to reject a delegated act they need to have reinforced qualified majority in the Council, which is impossible to get. I think its 18-20 Member States that will need to vote against, representing 65% of the European population. It's too big, you can never have such a strong coalition in the Council against the CDA, against any delegated act that is put forward. And yet, the Commission behaved as if the Council was going to reject the Act, but that was never going to happen, never. The Commission never needed to promise to include gas and nuclear, but it did. It did for political reasons (…) If the hierarchy, the leadership, both of the Commissioner and the Director-General, is not there, that really affects the file. That really, really affects the file. And if the President is not the most legitimate president, if the President maybe owes a thing or two to Member States, then that President will give in to the Member States (I5)

The difficulty to veto any delegated act is raised by several respondents (I1; I2; I3; I5), which suggests that the Commission could have honoured the environmental ambition of the Taxonomy better by keeping the two energy sources separated, which allegedly would have hindered their adoption. And yet they chose not to. These concerns are also echoed elsewhere, with Parliament Member Sirpa Pietikäinen called it "the worst breach of a first level regulation that I have seen in my 20 years in the European Parliament" (Bellona 2022). September 2022 moreover saw five prominent civil society organizations[12] officially leaving the PSF on these exact grounds, saying the Commission had "interfered politically" in the decision to include nuclear and gas in the Taxonomy and "acted against evidence despite its legal obligation to follow science-based advice" (WWF 2022c).

[12] The European Consumer Organisation (BEUC), Birdlife Europe and Central Asia, Environmental Coalition on Standards (ECOS), Transport & Environment (T&E), and the World Wide Fund For Nature (WWF) European Policy Office (Euractive 2022)

Another set of concerns was raised against other aspects of the policy process:

> They did not ask the people or the public. They received advice from their expert group, of course, but it is a very closed process, and that is not the intention. But then there are several matters, in Art. 10, Art. 19, and in Art. 17 that are completely violated. Part of it is an impact assessment and public feedback and things like that, but also the fact that, when asking for the Parliament's feedback, they sent out the proposal when they were on Christmas vacation. It was just a total overrun (I12)

In short, these CDA criticisms – which were echoed by several respondents (I3; I5; I12; I13) – regarded the lack of public consultation rounds, the circumvention of Parliament and the disregard for the PSF's advice (Bellona 2022; Austria 2022), amounting to a highly disputed precedent for legal procedure. These vocal acts of delegitimation from respondents and stakeholders not only raises questions about the Commission's role in catering for vested interest, it also challenges the EU's democratic credibility as an institution:

> With the CDA, the Council and the Commission have circumvented the Parliament. And it is a very big democratic problem when the Commission abuses the lack of checks and balances. If there is not a veto from the Parliament, then it is an important part of checking that the democratic system in the EU works (…) And if that happens, then this is a good precedent for the future that the Commission cannot do this. But if they come to the conclusion that they can, then "the flood gates are open" and you find yourself in a democracy where the executive has too much unchecked power and can enter into agreements and withdraw afterwards (I12)

Accounting for the full scope of procedural critique against the CDA and the Commission's motives in the process is beyond the scope of this thesis. Here it suffices to say that, with regards to the Taxonomy's shift of forums and how that served to marginalise veto players, a number of respondents raised concerns about the role of the Commission in catering for powerful vested interests. Part of the reason as to why the Taxonomy's shift of forums was only slightly successful in this undertaking can thus – quite ironically – be traced to the very institution whose relative increase of definition power was intended to bring a more ambitious normative stance on sustainable finance.

Rewarding norm-leaders

Where then, does the above observations leave us in terms of the Taxonomy's ability to reward norm leaders? As for *how* they are rewarded, it is as previously noted beyond the scope of this thesis to assess how Taxonomy-alignment will affect financing prospects. For non-monetary benefits however, section 5.3 found that the Taxonomy's institutional design is relatively well

suited to single out norm-leaders, which enables the mobilisation of pride. This is also pointed out by the Commission (2021a) itself, which projects that green activities will be rewarded with enhanced visibility:

> The Taxonomy Regulation, along with the SFDR, CSRD, and ongoing policy initiatives such as the EU Ecolabel for retail financial products and the EU Green Bond Standard, will ensure that Taxonomy-aligned activities are visible and recognised in investment decisions (p. 10-11)

Their views are also echoed by a number of respondents, who expects that Taxonomy-alignment will accelerate positive social feedbacks in the form of reputational benefits:

> To be classified as green thus far has not had that type of effect, it is mostly reputation, and that is important, but you don't get to realise it in money. It might be, that the Taxonomy will change this, but we don't know. We haven't seen those effects yet (I2)

Notably, the prospect to strengthen positive social feedbacks from being classified as green in the Taxonomy derives from its position in the market. Here, the previous sections have shown that the tool holds some promise in terms of 1) its strategic position in dominant political discourses, 2) its mandatory nature, which means the Taxonomy is secured a significant part of the corporate sustainability reporting market, 3) its relatively strong resonance in materially powerful transnational networks, and 4) for being at the heart of EU's sustainable finance strategy, which holds a significant gatekeeper position in sustainable finance regulation globally. Taken together, these factors may all serve to strengthen the market credibility and subsequent uptake of the Taxonomy, the resulting scale of which will determine the strength of social feedbacks that comes from being Taxonomy-aligned.

Having shown that norm-leaders should expect positive social feedbacks from being Taxonomy-aligned, I dedicate the second part of this section to discuss *who* these norm-leaders are. As previously mentioned, the pre-CDA Taxonomy adopted a strict dark green approach, where only the best in class could prize themselves with the EU-approved label for sustainability. The initial group of norm-leaders amounted to the selected few, who not only lived up to the significant contribution criteria, but also did not harm any of the other environmental objectives laid out in the TR. Several respondents spoke of Taxonomy-alignment as being 'too strict' or close to unattainable for its complexity and/or ambition:

> You risk making the regulations so strict that there is no chance of reaching them. That's a concern of mine, because we need the transition, and it's not cheaper financing we're talking about, it's a real threat to humanity, to use big words. And then I think there should be a critical mass that is included, maybe 25% or something like that. 15% is too little, and 40% is too much (I4)

> There is something about the complexity of this proposal, because the green taxonomy has been made so complicated, with the fact that you have to make a significant contribution, and have to ensure all these DNSH criteria, then it is very cumbersome, so when you then include all the activities, it becomes an absolutely enormous framework (I6)

What these observations serve to highlight, is that the initial Taxonomy had high environmental ambitions as to which activities should be recognised as a norm-leading. It portrayed the ideal low-carbon future, which did not allow for "trade-offs between the environmental, social and economic capital" (Dusík & Bond 2022, 93).

If initial Taxonomy-alignment can be described as rewarding for a relatively homogenous and highly ambitious group of norm-leaders then, the homogeneity of the group was undeniably challenged with the CDA's adoption. As shown in section 5.3, the CDA blurred the lines between dark green activities and transitional activities. How did this affect the reward-profile of these separate activity groups?

> The losers are all those who have low-carbon solutions and who are at the beginning of market development and need more funding, and the winners are without a doubt fossil gas and nuclear power. Nuclear power gets a stamp of approval that they didn't have before, so they get a new spring and fossil gas will be business as usual, there probably won't be more, but at least continued investments for the next 10 years (I12)

> Losers? EU citizens, their money is going to be put into a lot of these projects; Communities that are particularly close to these fossil fuel projects or these new plants; Renewable companies are losing out massively; Countries, like Spain, Austria, Luxembourg, Denmark, they are all making some serious efforts to the transition. Evidence-policy making is a big, big loser in this process. It's kind of embarrassing what's happened. It's worse. It's shambolic. When Greta Thunberg says listen to the science, this is what she means. But in the clash between scientific evidence and political pressure, the latter wins (I3).

> The nuclear industry is a big winner in this process. Huge winner because its totally bankrupt, there is not one nuclear plant that has been completed on time and on their budget in the EU for the last 20 years. Billions of euros over budget. It was an industry that was about to die. The Taxonomy throws it a life line and everywhere there's renewed interest in the nuclear industry because of the massive lobby push (…) The fossil fuel industry, amazingly, has managed to classify itself once again as part of the solution, and this is possibly one of the worst outcomes, is that we now get fossil fuel as part of the solution to the climate crisis. It's kind of Kafkaesque, it's kind of Orwellian, yet here we are (I3)

What these observations point to is that, in the group of Taxonomy-recognised norm-leaders, the CDA rewards gas and nuclear energy at the relative expense of low-carbon solutions. It clearly shows that transitional activities and Member States who are highly affiliated with or dependent upon such, are granted with the same positive social feedbacks as dark green

activities and Member States who have put in lots of effort and resources to be norm-leading in this regard. Instead of rewarding the most environmentally ambitious companies, financial actors and states, the Taxonomy ends up rewarding their transitional counterparts, which in this case are two highly controversial energy sources. Without going further into how the CDA will affect the financing of nuclear and gas respectively, I12 provides an example of such:

> You have investors who would never invest in fossil gas anyway, because they see for themselves that it is not sustainable. But there are also the investors who are simply looking to make their portfolio as Taxonomy-aligned as possible, and if they are able to bring in fossil gas assets because they are highly profitable and sustainable, then they will refrain from low-carbon solutions, such as CCS, that do not have much to offer in terms of profit when compared to fossil gas. If they alone were labelled sustainable, then fossil gas would still be chosen as an investment object, but then at least sustainable finance would go to CCS. Whereas now there is no incentive to invest in CCS when you can invest in fossil gas which has a higher profit margin (I12)

Notably, the CDA's additional reporting requirements might amend this unfortunate reward-structure to some degree, since proportions of gaseous and nuclear activities must be specifically disclosed. But as was argued by I12, these additional disclosures should primarily be expected to resonate with already prudent investors who would keep out of fossil gas assets either way, whilst conventional investors who seek to combine the highest level of profits and sustainability-derived reputational benefits are incentivised to opt for gas, which is highly profitable in the current geopolitical context. Dark green projects should in other words not expect to lose out of funding, but a potential Taxonomy-induced growth in the aggregate bulk of sustainable finance – i.e., the additional rewards – should be expected to benefit transitional activities disproportionally (I12; I13).

This section has discussed whether the Taxonomy was able to marginalise veto players and reward norm-leaders through the shift of institutional forums from voluntary self-regulation to EU jurisdiction. While looking at the Taxonomy's legal standing would lead us to perceive the shift as an exclusive strengthening of democratic institutions at the expense of private actors, this section has shown that the outcome remains less straightforward than the mere formalities would presume. I have argued that the marginalisation of veto players proved less clear-cut than expected, pointing to their continued influence over the standardisation process through formal and informal means. This was especially evident in the CDA process, which arguably also raised concerns about the role of the Commission in catering for powerful vested interests. The Taxonomy's potential to reward norm-leaders was moreover severely reduced with the adoption of the CDA, which ended up rewarding gas and nuclear at the relative expense of low-

carbon energy solutions. Respondents agreed that, in the battle for Taxonomy-induced positive social feedbacks, norm-leaders lost. As for hypothesis 5, whilst the Taxonomy's shit of forums undeniably was effective in formally institutionalising the norm for sustainable finance, its ability to marginalise of veto players and reward norm-leaders proved less effective than expected, and especially so in the CDA process.

6.0 Conclusion

The aim of this thesis has been to provide a deeper understanding of the EU Taxonomy on sustainable investments. The chosen case study touches upon the debate around 'sustainable finance' as a means to tackle climate change on the one hand, and the use of transparency tools to make investment practices more sustainable on the other. The key contribution of my research in this regard lies in a systemic assessment of the Taxonomy's normative potential, explored under the research question:

What is the EU Taxonomy's potential for changing norms for sustainable finance?

Having restricted my research to the Taxonomy Regulation and the Complementary Climate Delegated Act (CDA), the thesis situates the policy tool in climate change governance. With social constructivist institutional theory as point of departure, it seeks to answer the question by assessing the Taxonomy's strengths and weaknesses against five normative strategies, that is, its ability to: 1) Promote discursive shifts; 2) identify and promote norm-related identities; 3) mobilise pride and shame; 4) mobilise transnational networks; and 5) shift forums to marginalise veto players. This chapter will start by presenting a summary of my findings, continues by outlining the Taxonomy's way forward, and ends with a contextualisation of findings in relation to theory and identification of future avenues of research.

6.1 Summary of findings

In section 5.1, I discussed the Taxonomy's adoption of discursive shifts to strengthen the norm of sustainable finance. It found that the tool is strategically located in the dominant discourses of climate risk, the business case for sustainability, and private finance as a climate change solution, all of which emphasise the economic rationality of investing sustainably. A few exceptions to the interest-based framings are found in the Taxonomy's institutional design, which pushes 'sustainability' in a more holistic direction and demands corporate sustainability to be measured in significant positive contributions. The emancipatory potential of the latter lost much of its normative clout with the adoption of the CDA however, which used the 'low-carbon nuclear' and 'natural gas' discourses to legitimise their inclusion in the Taxonomy and softened the criteria deployment in the process. Instead of pushing "strong sustainability into the heart of 'sustainable investments'" (Slootweg 2022, 101), the CDA lowered the normative ambition to that of 'pragmatic sustainability'. The discursive focus reflects thus, the continued privileged position of interest-based rationales over their normative counterparts.

Section 5.2 showed that investors value sustainability-related identities and that the Taxonomy promotes the most rationally economic version of such, attempting to bridge the alleged conflict between the sustainability and profitability. It further discussed the Taxonomy's potential to be a 'gold standard' against its ability to establish itself as the primary gatekeeper to sustainability-related identities. This showed that, while the tool is by and large perceived to improve transparency around corporations' environmental performance, it still suffers from a number of challenges, including its scope and coverage, its binary approach, issues of usability, and its climate credibility in the aftermath of the CDA. The Taxonomy's route towards becoming the gold standard for sustainable investments will therefore depend on in its ability to adapt to changing circumstances and ratchet up ambitions over time.

Section 5.3 discussed how the Taxonomy mobilises pride and shame around norm-leaders and norm-laggards respectively. It showed that, while the Taxonomy is well suited to single out sustainable activities, its effectiveness in this undertaking was reduced by the CDA, which blurred the distinction between dark green and transitional activities for the benefit of the latter. As for significantly harmful activities, these are currently allowed to hide in a highly heterogeneous 'grey' category, which hampers the effective mobilisation of shame. The section also found that the Taxonomy established potent social expectations of change to encourage norm adoption, but that expectations to its environmental ambition as well as its institutional ability to alter such with time was weakened with the CDA. Ironically, the resulting lowering of environmental ambition might have been triggered by strong social expectations initially.

Section 5.4 discussed the Taxonomy's ability to mobilise transnational networks to strengthen the sustainable finance norm. It found that regulators were successful in mobilising a great variety of networks in the early development of the Taxonomy, which came together with a shared understanding of 'sustainable finance'. Their common narrative was partly shattered in the CDA process however, which harmed the Taxonomy's normative stance in key stakeholder networks, resulting in a relative weakening of the tool's democratic legitimacy and scientific credibility. The section also found that tool is well positioned to influence financial regulation and practices beyond EU's jurisdiction, and the unfortunate effects of such in the aftermath of the CDA, which allegedly triggered a global race to the bottom in environmental ambition of sustainable finance taxonomies worldwide.

Section 5.5 discussed whether the Taxonomy was able to marginalise veto players and reward norm-leaders through the shift of institutional forums from voluntary self-regulation to EU jurisdiction. It found that the shift strengthened the definition power of democratic institutions

at the expense of private actors, which served to increase the Taxonomy's normative standing. The resulting marginalisation of veto players proved less effective than expected however, reflected in their continued influence over the standardisation process through formal and informal means. This was especially evident in the CDA process, which also raised concerns about the role of the Commission in catering for powerful vested interests. In turn, the shift's ability to reward norm-leaders was reduced, where the CDA ended up rewarding gas and nuclear at the relative expense of low-carbon energy solutions.

Taken together, The Taxonomy can – by its legal and technical nature, mandatory disclosures and the EU's global regulatory influence – expect to become a key reference for sustainable finance in the years to come. Its normative strength is supported by its strategic discursive positioning within the increasingly mainstreamed climate-finance nexus and regulators' ability to find common ground with powerful transnational networks, especially that of the finance sector itself. Rather than utilising normative rationales to accelerate norm-adoption, the Taxonomy promotes identities that emphasise the economic rationality of investing sustainably, rhetorically downplaying the historically dominant understanding of climate action as a costly undertaking in its attempt to strengthen positive economic and social feedbacks from norm adoption. Given the recent mainstreaming of financial solutions to climate change, one should not underestimate the resonance of this discursive positionality with a broad coalition of stakeholders, and especially not in the a European market-based governance context.

Beyond the initial promise however, this thesis found that the adoption of the CDA severely harmed the normative standing of the Taxonomy. It seemingly captured the tool in an energy politics tug of war, which softened the deployment of the Taxonomy criteria and resulted in a lowering of the instrument's environmental ambition. Where the initial framework had potential to push the sustainability concept in an ecological direction, the CDA triggered a slide back to an economic understanding, signalling that environmental loss can indeed be traded against economic gains. The Act also served to alienate key stakeholders and their respective networks – and arguably those with the highest normative standing, who provided the Taxonomy with much of its scientific credibility and democratic legitimacy. Its usefulness for investors and subsequent market credibility was thereby also challenged. Perhaps most damaging in this regard, is that the EU's global leadership on sustainable finance regulation means that the CDA is expected to cause harmful ripple effects way beyond its jurisdiction. That a global leader on climate policy defines fossil gas as green in an allegedly technical and science-based standard sets a poor normative precedent for sustainable finance regulation.

As a result, all five normative strategies against which the Taxonomy's normative potential has been assessed were weakened in the CDA process. Its initial promise to push sustainability in a more holistic direction was in practice limited to a mere echoing of dominant 'green growth' narratives. Taxonomy-related sustainable identities lost some of its prestige by the damage to its market credibility. While the mobilisation of shame remained unchanged, the mobilisation of pride for norm-leaders was limited by the blurred distinction between dark green and transitional activities. The mobilisation of transnational networks also suffered a severe blow, reflected in vocal acts of de-legitimation and alienation of key stakeholder groups. And finally, while the shift of forums formally succeeded in marginalising the definition power of veto players, findings suggest that they nonetheless maintained a high degree of influence over the CDA's adoption. Does this mean that all hope is lost for the Taxonomy's normative potential?

6.2 The way forward

The short answer to this question is 'no'. First of all, the Taxonomy's sustainable finance norm – albeit less ambitious than its pre-CDA potential – still seems to have high resonance amongst its primary target group, namely conventional investors. Even if the CDA put the legitimacy and credibility of the Taxonomy at risk in certain circles, it is questionable whether the concerns raised by these actors is enough to undermine the tool as a whole. There is no doubt that the CDA faces severe legitimacy challenges, the question is rather whether its opponents make up a critical mass strong enough to pose a serious threat to its overall legitimacy. Here, I will argue that as long as the sustainable finance norm promoted through the Taxonomy framework still has high resonance amongst its primary target group – i.e., keeping the majority of the norm-supportive group intact – it might be able to stand against the storm.

In extension, these observations point to a dual trajectory of the Taxonomy's normative strength. On the one hand is the normative element of the sustainable finance norm – that is, the climate ambition and scientific credibility of the Taxonomy – which has arguably suffered a severe blow. On the other hand is the social element of the sustainable finance norm – that is, the tool's ability to strengthen social feedbacks amongst norm-followers – which seems to have suffered less from the CDA's adoption. The Taxonomy's current strength can therefore be said to lie – not in a strong normative stance – but in its social standing in the conventional finance domain, whereby its primary contribution should be expected to derive from its role as a norm accelerator rather than as a normative pioneer. If this is the case, we can anticipate the

Taxonomy to convey a broadly adopted but relatively weak sustainable finance norm, when compared to its pre-CDA potential. Whether this outcome will come to slow down or accelerate the norm for sustainable finance in the long run depends on the CDA's ripple effects globally, whose potentially long-lasting harmful effects still remains to be seen.

Secondly, where findings thus far have emphasised the normative weakness of the CDA, the Act should also be understood as the lowest common denominator outcome of a democratic – albeit somewhat questioned – process, where the inability to find common ground resulted in a suboptimal classification from a climate-perspective. A lowest common denominator outcome might sometimes prove a necessary first step without which the regulation is unable to get past the democratic, legislative procedure however. And compromising environmental ambition for the sake of legislative adoption can still be combined with a ratcheting up of ambition over time. The Taxonomy and its related Delegated Acts are living documents whose thresholds and methodology will be subject to continuous evaluation and revision, reflecting EU's dedication to a test-and-learn governance approach that might secure the Taxonomy's continued relevance despite changing circumstances. So while the Commission's ability to stand up against powerful veto players was indeed challenged in the CDA process, the Taxonomy is capable – institutionally speaking – to ratchet up environmental ambitions over time.

In the best of worlds therefore, the Taxonomy is still be able to successively alter its normative standing. The CDA's lowest-common denominator outcome might be forgiven – if not by environmental NGOs and climate scientists than at least by the critical masses of conventional investors – on the basis of pragmatism against the backdrop of a full-blown European energy crisis, whereby the further mainstreaming of a somewhat injured sustainable finance norm can take place. This might in turn serve to alter the preferences of financial actors to a point where sustainable investing becomes habitual and tip international dynamics in favour of more ambitious policies in the future. It all depends on whether the Taxonomy demonstrates adaptive capacity and makes constructive use of its test-and-learn approach to ratchet up ambition over time, and whether the CDA is able to thwart a strong normative stance on sustainable finance globally before then.

6.2 Perspectives

As for other theoretical perspectives, this thesis has paid little attention to the role of material incentives in altering corporate behaviour. How the Taxonomy will influence economic incentives for investing sustainably is nevertheless worthy of future research, especially given the intention of the EU to utilise Taxonomy criteria as reference for future public financing schemes. Especially pressing in this regard, is to research how the CDA will come to affect the financing of dark green and transitional activities respectively, a point which several respondents expressed serious concerns about.

Another avenue of further research lies in the assessment of the Taxonomy and the CDA from a critical political economy perspective. While the norm-based focus has been able to account for normative conflicts of knowledge production and the relative non-marginalisation of veto players, the findings of this thesis arguably call for a more comprehensive analysis of *how* and *why* the Taxonomy and CDA came about. These are questions that a critical political economy perspective – which pays greater attention to process and the power distribution amongst different actors – is arguably better suited to account for.

Given that the CDA represented a significant normative shift towards the worse, assessing more comprehensively how that happened would be useful, not the least to prevent potential deteriorations of future policies' normative standing. This is also true for the future development of the Taxonomy itself, where a more comprehensive understanding of the policy-making process and the power structures involved could help regulators avoid a similar development in the next round of TSC revisions. Given the CDA's high level of politicisation this time around, the same levels of political mobilisation should only be expected in three years' time, when the criteria for nuclear and gas are up for assessment again. Finally, identifying a 'lessons learned' of the CDA process might also help other jurisdictions who are currently developing their own taxonomies to avoid losing normative clout.

Conclusively then, the findings of this thesis suggests that sustainable finance governors would benefit from more in-depth analysis of the CDA process and the reconfiguration of power distribution therein. There seems to have been powerful vested interests at work, and their ability to win ground should be fully understood before we can trust a test-and-learn approach to increase the Taxonomy's ambition over time. I highly welcome future research on the CDA as a potential case of regulatory capture.

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Appendices

Appendix A: List of Key Documents

Author	Name	Year published
High-Level Expert Group on Sustainable Finance	Financing a Sustainable European Economy, Final Report	2018
European Commission	Action Plan: Financing Sustainable Growth	2018
European Commission	Taxonomy: Final report of the Technical Expert Group on Sustainable Finance	2020
European Parliament and the Council of the European Union	Regulation (EU) 2020/852	2020
European Commission	FAQ: What is the EU Taxonomy and how will it work in practice?	2021
European Commission	Commission Delegated Regulation (EU) 2022/1214 of 9 March 2022.	2022
European Commission	Questions and Answers on the EU Taxonomy Complementary Climate Delegated Act covering certain nuclear and gas activities.	2022

Appendix B: Attended Webinars

Date	Event name	Organised by	Key speakers
20 November 2020	Hva vil EUs nye klassifiseringssystem bety for næringslivet?	Skift, Zerokonferansen	Espen Barth Eide, Energi- og miljøkomiteen på Stortinget; Catharine Bjerje, Veidekke; Hanne Løvstad, PwC; Grete Aspelund, Sweco; Line Asker, Finans Norge; Anders Fylling, Statsbygg; Anders Olstad, Entra; Nina Lillelien, Hydro Energy
24 February 2021	Enabling transition finance	European Commission	Martin Spolc, DG Fisma; Nathan Fabian, Platform on Sustainable Finance; Mukund Bhagwat, PSF; Jeorg Ladwein, Allianz Investment Management SE; Mark Lewis, BNP Paibas Asset Management; Jacques Despres, Joint Research Centre
26 February 2021	The process of developing taxonomy criteria for the remaining four environmental objectives	European Commission	Maired McGuinness, European Commission; Nathan Fabian, Platform on Sustainable Finance; Marzia Traverso, TEG and RWTH Aachen University; Ben Allen, TEG and Institute for European Environmental Policy
10 November 2021	EUs green deal og taksonomi	Norsk Klimastiftelse and Finansforbundet	Line Asker, DNB; Åsne Ådland-Dale, Sparebanken Vest; Jorge Jensen, Forbrukerrådet; Eivind Friis Hamre, Finansforbundet; Alf Ole Ask; Energi og Klima
4 May 2022	Spør Skancke! Et webinar om energiomstilling, klimarisiko og den grønne bølgen i finans	Norsk Klimastiftelse and Finansforbundet	Martin Skancke; Principles of Responsible Investment; Task Force on Climate-Related Financial Disclosures; Norway's Climate Risk Commission
11 May 2022	Fossil Gas in the EU Taxonomy CDA: Breach of laws and non-respect of democratic processes?	Bellona and ClientEarth	Marta Toporek, ClientEarth; Sirpa Pietikäinen, Member of European Parliament, Stefan Sengelin**,** Republic of Austria
24 May 2022	Taxonomy CDA: Implications on financial markets and the role of fossil gas in EU green transition	Bellona and Climate Bonds Initiative	Philippe Lamberts, Member of European Parliament; Sean Kidney, CEO, Climate Bonds Initiative; Victor Van Hoorn, the European Sustainable Investment Forum
1 December 2022	EU's green label for gas and nuclear: Climate, energy & security risks	Greenpeace	Tsvetelina Kuzmanova, E3G; Svitlana Romanko, Razom We Stand; Sascha Samadi, the Wuppertal Institute

Appendix C: Informant overview

Stakeholder group	Organisation	Type of organisation
Industry	Hydro	Industry
	Entra ASA	Industry
Financial Actors	DNB	Bank
	Storebrand	Bank
Public Authorities	Department of Finance, Finland	Ministry
	European Commission, Directorate General for Climate Finance	Regional government body
NGOs / Interest Organisations	Finance Norge	Industry organisation
	Finance Finland	Industry organisation
	WWF European Policy Office	Environmental NGO
	Bellona Europe	Environmental NGO
	Client Earth	Environmental NGO
	Norsk Klimastiftelse	Environmental NGO
Academia	CICERO Center for International Climate and Environmental Research	Research Centre

Appendix D: HLEG members

Name	Organisation
Christian Thimann	AXA
Julie Becker	Luxembourg Stock Exchange
Magnus Billing	Alecta
Pascal Canfin	WWF France
Stanislas Dupre	2' Investing Initiative
Paul Fisher	University of Cambridge
Mieczyslaw Groszek	Polish Bank Association
David Harris	London Stock Exchange Group
Ingrid Holmes	E3G London Office
Anne-Cathrine Husson-Traore	Novethic
Sean Kidney	Climate Bonds Initiative
Esko Kivisaari	Finance Finland
Claudia Kruse	APG Asset Management
Richard Mattison	Trucost
Arlene McCarthy	AMC Strategy
Flavia Micilotta	Eurosif
Michael Schmidt	Deka Investment Group
Myriam Vander Stichele	Somo
Steve Waygood	Aviva Investors
Philippie Zaouati	Mirova

Appendix E: TEG members

Name	Organisation
Dawn Slevin	AIG Europe
Steffen Hoerter	Allianz Global Investors
Curtis Ravenel	Bloomberg
Helena Viñes Fiestas	BNP Paribas Asset Management
Sara Lovisolo	Borsa Italiana
Jean-Yves Wilmotte	Carbone 4
Pierfransesco Latini	Cassa Depositi e Prestiti S.p.A.
Nico Fettes	Carbon Disclosure Project
Sean Kidney	Climate Bond Initiative
Sandrine Dixson-Decleve	Climate KIC
Tanguy Claquin	EACB
José Luis Blasco	EFFAS
Thomas Kusterer	EnBW AG
Jesús Martínes Pérez	Eurelectric
Ludovic Suttor Sorel	Finance Watch
Karsten Loeffler	Green Finance Cluster Frankfurt
Eszter Vitorino	Global Reporting Initiative
Nicolas Pfaff	ICMA
Karl Ludwig Brockmann	KfW Bankengruppe
Flavia Micilotta	Luxembourg Stock Exchange
Manuel Coeslier	Mirova
Veronique Menou	MSCI
Aila AHO	Nordea
Nathan Fabian	PRI
Ursula Hartenberger	RICS
Michèle Lacroix	SCOR
Marie Baumgarts	SEB
Claudia Bolli	Swiss Re Ltd
Elena Philipova	Thomson Reuters
Michel Pinto	Unilever
Maciej Bukowski	WiseEuropa
Jochen Krimphoff	WWF

Andreas Hoepner	*Appointed in personal capacity
Brenda Kramer	*Appointed as a representative of a common stakeholder interest
Paolo Masoni	*Appointed in personal capacity

Directly invited members	
Organisation	**Name**
European Banking Authority	Pilar Gutiérrez, piers Haben, Mira Lamriben, Slavka Eley
European Central Bank	Ana Sofia Melo, Fabio Tamburrini
European Insurance and Occupational Pensions Authority	Lázaro Cuesta Barbera, Marie Scholer
European Investment Bank	Eila Kreivi, Aldo Romani, Nancy Saich, Peter Anderson, Dominika Rosolowska, Jean-Luc Pilippini, Cinzia Losenno
European Securities Market Authority	Alessandro D'Eri, Roxana Damianov Michele Mazzoni, Eduardo-Javier Moral-Prieto, Chantal Sourlas, Jacob Lönnquist
European Environment Agency	Andreas Barkman, Stefan Speck

Appendix F: PSF members

Name	Organisation
Marc Spieker	E.ON SE
Emmanuel Katrakis	European Recycling Industries' Confederation
Brigitte Bichler	OMW Aktiengesellschaft
Maria Pohjala	Confederation of European Forest Owners
Mukund Bhagwat	Eurometaux
Károly Kovács	European Water Association (EWA)
Jelena Macura	Cefic
Jari Pekka Vuorinen	European Construction Industry Federation
Jan Bollen	Eurofer
Laura Muller	European Dredging Association
Roberto Ferández Albendea	Iberdrola
Nicolas Chretien	Airbus
Andreas Brunsgaard	Orgalim
Alexandre Affre	BusinessEurope
Dawid Bastiat-Jarosz	Business and Science Poland
Sandrine Dizson-Decléve	EIT Climate KIC
James Dalton	International Union for Conservation of Nature
Mathilde Crêpy	European Environmental Citizen's Organisation for Standardisation
Sebastian Godinot	World Wildlife Fund (WWF)
Luca Bonaccorsi	Transport and Environment
Theodor F. Cojoianu	Agent Green
Ariel Brunner	Birdlife
Sonja Haider	Chemsec
Stephen Richardson	World Green Building Council, Europe
Michiel De Smet	Ellen MacArthur Foundation
Ben Allen	The Institute for European Environmental Policy
Steigvilè Bycenkiene	RTO Lithuania
Garbiñe Manterola	Basque Research and Technology Alliance
Linda Romanovska	Type A
Marzia Traverso	Type A
Bernabé Alonso Fariñas	Type A
Patrick Bader	BNP Paribas
Nicholas Pfaff	International Capital Markets Association
Sean Kidney	Climate Bonds Initiative

Jörg Ladwein	Allianz SE
Nadia Humphreys	Bloomberg
Christian Heller	Value Balancing Alliance e.V.
Piet Vanden Abeele	SMEunited
Karsten Löffler	Green and Sustainable Finance Cluster Germany
Stéphane Voisin	Institut Louis Bachelier
Paolo Marullo Reedtz	Type A
Andreas Hoepner	Type A
Brenda Kramer	Type B
Thierry Philipponnat	Finance Watch
Monique Goyens	Bureau Européen des Unions de Consommateurs
Marco Cilento	European Trade Union Confederation
Karl-Oskar Olmig	SEB
Bastian Buck	Global Reporting initiative (GRI)
Antje Schneeweiß	Type B
Signe Andreassen Lysgaard	Type B
Helena Vines Fiestas	Type A

Directly invited members	
Organisation	**Name**
European Environment Agency	Andreas Barkman
European Investment Bank	Eila Krevi
European Investment Fund	Peter Coveliers
European Banking Authority	Fabian Le Tennier
European Insurance and Occupational Pensions	Pamela Schuermans
European Securities and Markets Authority	Evert van Walsum
EU Agency for Fundamental Rights	Jonas Grimheden

Appendix H: Interview Guide

1. Background	
1.1	Could you give me a brief introduction to yourself and your education and professional background?
1.2	Could you briefly introduce me to the organisation you work for?
1.3	In what position have you worked with/become familiar with the EU Taxonomy?
1.4	Have you and/your employer actively taken part in developing the EU Taxonomy, either through expert groups (HLEG/TEG/PSF), stakeholder or public consultations?
2. The policy process	
2.1	What are your thoughts about the political process leading up to the adoption of the Taxonomy Regulation?
2.2	What are your thoughts about the political process leading up to the adoption of the Complementary Climate Delegated Act?
2.3	What are your thoughts about the choice to use Delegated Acts for developing technical screening criteria?
2.4	How would you explain the balance of power between the Commission and the Parliament/Council with regards to the adoption of the Taxonomy Regulation?
2.5	How would you explain the balance of power between the Commission and the Parliament/Council with regards to the CDA process?
2.6	From what you have observed, how would you describe the Taxonomy/CDA process in terms of: a. Inclusiveness, in that all affected parties were involved in deliberations? b. Transparency, with regards to publicly available documents and external communication? c. Efficiency, with regards to time and resources? d. Expertise, as in being based on the best available knowledge/science and skills? e. Proportionality, with regards to whose actors interests' were heard?
3. Policy implementation	
3.1	How will your organisation go about to implement the Taxonomy?
3.2	Do you expect any challenges to arise in the implementation process?
3.3	How has the Taxonomy been received amongst financial actors?
3.4	How has the CDA been received amongst financial actors?
4. Policy performance	
4.1	Do you expect the Taxonomy to foster enhanced transparency and why/why not?
4.2	How do you expect the Taxonomy to affect greenwashing practices?
4.3	Do you expect the Taxonomy to steer financial flows in a green direction and why/why not?
4.4	Do you expect the Taxonomy to benefit all stakeholders equally and why/why not?
4.5	Do you expect the Taxonomy to become the main point of reference for sustainable investments and why/why not?
5. Future outlook and global reach	
5.1	How do you expect the Taxonomy to develop over time?
5.2	How do you expect the Taxonomy to influence the development of green finance standards globally?