

## Section 2: Introduction to the Thailand Taxonomy

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## Introduction

The release of the first draft of the Thailand Taxonomy paper in December 2022 is likely to have key impacts for financial institutions, high emitter sectors and general stakeholders alike. In order to understand the significance of the national taxonomy, it is important to have a sound understanding of what taxonomies are.

## General Overview

### What is a taxonomy?

**A taxonomy is a classification system, establishing a list of sustainable economic activities.** Green taxonomies focus on pure green environmental activities (e.g., EU Taxonomy). A robust green taxonomy should be transparent and grounded in the latest climate science (Climate Bonds Initiative, 2022). Green taxonomy specifies environmental objectives and list the activities contributing to the objectives or principles to identify the activity as green, sector in focus, and implementation method. **Thailand Taxonomy is a Green Taxonomy which focuses on environmentally sustainable economic activities in the Thai economy.**

While approaches to developing a taxonomy may differ from country to country, they are generally developed following a common set of principles (CBI, 2022):

- Science-based
- Dynamic
- Incorporating measures for Do No Significant Harm (DNSH)
- Emphasis on regional characteristics and utilization of existing labels and regulations

The Climate Bonds Initiative (CBI) defines a green taxonomy as a “guide to climate aligned projects and assets” (2022). It will support bond issuers, financial institutions, statistical agencies, investors governments and municipalities for decision making toward low carbon economy investment activities.

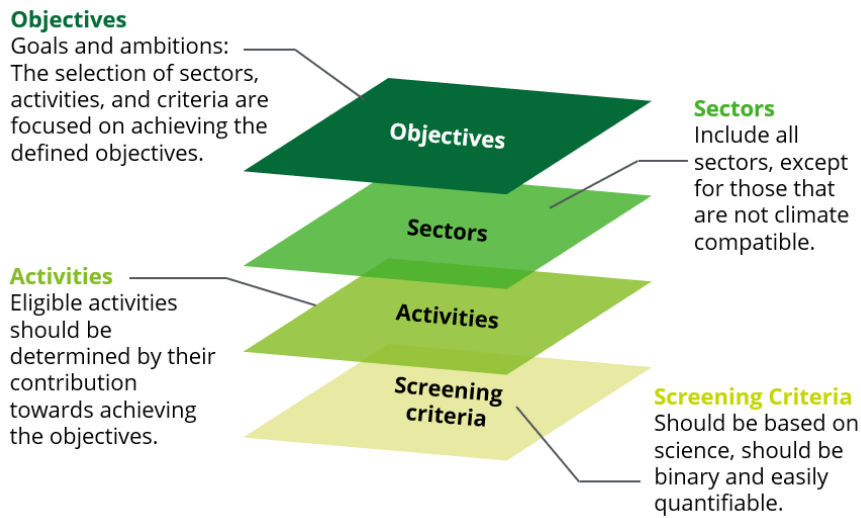
### Benefits

The adoption of a green taxonomy is expected to reduce “greenwashing” for investors whilst steering investments towards more climate-aligned initiatives. Taxonomies allow for a common reference for comparing the social and environmental impacts of investments and help stakeholders understand investment risks and helps promote investments that are considered sustainable. Stakeholders include, but are not limited to, financial institutions, market participants, regulators, and policymakers.

Taxonomies also enable the mobilization of green financing and the development of sustainable finance products such as green bonds, green loans, green asset-backed securities, and green indices (Climate Bonds Initiative, 2022). A taxonomy with a high level of granularity also allows investors and relevant authorities to measure different sectors’ level of decarbonization, efficiency of investments, and identify any weak spots. Overall, however, a national green taxonomy can be a significant factor in redirecting financial flows and investments toward key national environmental sustainability goals and commitments (World Bank Group, 2022).

### Components of a taxonomy

The structure of most taxonomies contains four layers (Climate Bonds Initiative, 2022b). This consists of:

















**General structure of Taxonomies**

Source: Thailand Taxonomy Paper: Draft for public consultations (Climate Bonds Initiative, 2022)

A taxonomy is not a mandatory list of “potential” investments, **it should not be making a judgement on the financial performance of an investment, and it should not be inflexible or static** (Gondijian and Merle, 2022).

Approaches to taxonomies generally follow three main approaches (Climate Bonds Initiative, 2022b). This includes:

	 <b>Whitelist-based</b>	 <b>Technical screening criteria (TSC)-based</b>	 <b>Principle-based</b>
<b>Approach</b>	<ul style="list-style-type: none"> <li>Focus on identifying <b>eligible projects</b> or <b>economic activities</b> under each sector or sub-sector</li> <li>List <b>technologies</b> that are considered green or sustainable and providing detail description of eligibility</li> <li>Identify activities that are <b>already green</b> or contain <b>green components</b></li> <li>Excels in <b>simplicity</b>, but require <b>additional judgement</b> calls from external reviews to ensure rigor</li> <li>Contain <b>technical screening standard</b> for certain activities and projects to define eligibility</li> </ul>	<ul style="list-style-type: none"> <li>Informs <b>thresholds</b> and <b>screening criteria</b> for economic activities and their compliance with the specific objectives</li> <li><b>Technology-neutral</b> in screening eligible projects and assets for inclusion and <b>does not pre-determine</b> any specific technology or sub-sector activities</li> </ul>	<ul style="list-style-type: none"> <li>Define a set of <b>core principles</b> for market participants</li> <li>Contain core <b>guiding principles</b> to assess which economic activities can be funded and includes a non-exhaustive list of <b>examples</b></li> </ul>
<b>Adopted jurisdictions</b>	<ul style="list-style-type: none"> <li> People's republic of China</li> <li> Mongolia</li> <li> Russia</li> </ul>	<ul style="list-style-type: none"> <li> European Union</li> <li> South Africa</li> <li> South Korea</li> <li> Colombia</li> <li> Chile (in draft)</li> </ul>	<ul style="list-style-type: none"> <li> Malaysia</li> <li> Japan (Basic guidelines)</li> <li> International Capital Market Association: ICMA</li> </ul>

**Taxonomy development approaches**

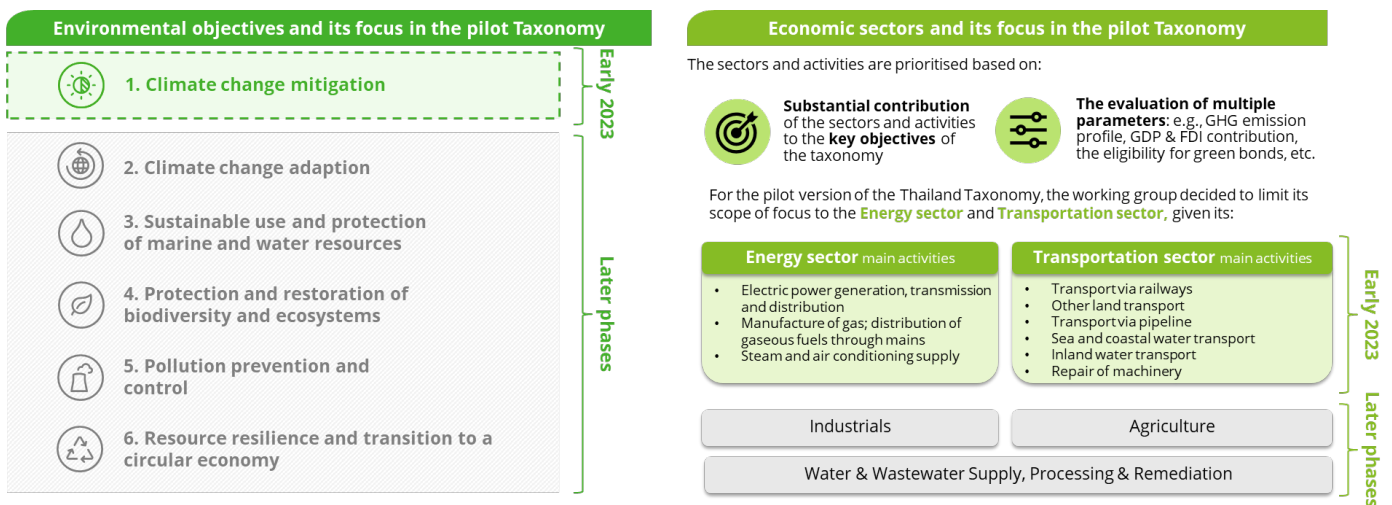
Source: Climate Bonds Initiative (2022b)

These approaches can overlap and can be used on its own or in combination. The Thailand Taxonomy takes both a principle-based approach whilst applying technical screening criteria. Thailand Taxonomy is developed as a two-tier set of principles for sustainable projects development and activities, which is closely aligned to the ASEAN Taxonomy.

## Thailand Taxonomy

The first draft of Thailand Taxonomy was developed by the Working Group on Sustainable Finance (WG-SF). It is a joint initiative supported by multiple bodies, with the paper prepared by the Climate Bonds Initiative. The draft published in December 2022 is a consultation on a pilot version of the taxonomy and will remain open for public consultation until January 26th, 2023. The aim of the first draft is to engage all relevant stakeholders and the public into a common discussion about decarbonisation pathways for each sector, the relevant criteria to consider the significance of activities at the sector level in contributing to climate change mitigation.

### Thailand Taxonomy: Environmental objectives and Focused sectors



#### Overview of environmental objectives and economic sectors highlighted in the Taxonomy

Source: Thailand Taxonomy Paper: Draft for public consultations (Climate Bonds Initiative, 2022)

### Focus

The primary focus of the Taxonomy, which is **aligned with a 1.5°C scenario**, is to “define activities that reduce GHG emissions to achieve the climate change mitigation objectives in line with Thailand’s climate policy and international obligations” (Climate Bonds Initiative, 2022). Although the Taxonomy with objectives on climate adaptation is to be adopted in the next phases, Thailand recognizes that adaptation and climate resilience are equally important.

### Usage

The Taxonomy is cited as a multipurpose tool that can be used for a variety of objectives, which includes:

- To steer the market and provide guidance, frameworks and standards for the investors and stakeholders
- To attract international climate-oriented capital
- To enable and harmonize data disclosure
- To assess environmental risks and risk mitigation options
- To modulate state policy in the desired manner
- To serve as a basis for data collection

### Environmental objectives

The Taxonomy is designed to cover six environmental objectives, although the first version of the Taxonomy will only develop the screening criteria and thresholds for climate change mitigation to start. The future version of the Thailand taxonomy is likely to cover screening criteria and thresholds of all environmental objectives which are:

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

### **Economic sectors covered**

Thailand taxonomy defines and evaluates sectors based on its contribution both to the key objectives as well as the country's economic performance. The draft referenced to the [International Standard Industrial Classification of economic activities \(ISIC\)](#) as a general framework for classification. The sectors and activities are prioritized based on:

- Substantial contribution of the sectors and activities to the key objectives of the taxonomy
- The evaluation of multiple parameters: e.g., GHG emission profile, GDP & Foreign direct investment (FDI) contribution, the eligibility for green bonds, etc.

For the first draft of the Thailand Taxonomy, the working group decided to limit its scope of focus to the **Energy** sector and **Transportation** sector. The other 3 sectors covered in the subsequent phases of Taxonomy include industrials, agriculture, and water & wastewater supply, processing & remediation.

### **Reviews and Grandfathering period**

The first draft stipulated that the Taxonomy should be reviewed every 3 years to catch up with the technology advancement and available best practices. It also set the grandfathering period for loans and bonds issued based on the previous version of taxonomy which can continue to use the old classification within the 5-year period after the new Taxonomy is in place.

## **References**

- Climate Bonds Initiative, "[Thailand Taxonomy Paper: Draft for public consultations](#)," 2022.
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- Gondijian, Garnik and Cédric Merle, "[Sustainable Taxonomy development worldwide: a standard-setting race between competing jurisdictions](#)," *Natixis*, July 29, 2021.
- World Bank Group, "[Developing a national green taxonomy](#)," 2020.

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