

The Korean Green Taxonomy (K-Taxonomy) Guideline and Its Implications



The Ministry of Environment of Korea established a national green taxonomy (the “K-Taxonomy”) based on the Environmental Technology and Industry Support Act, which was recently amended on April 21, 2021. On December 30, 2021, the Ministry of Environment announced the “K-Taxonomy Guideline” (the “Guideline”). Although the Guideline is not legally binding, it provides principles and standards on what types of economic activities are considered green activities. The Guideline serves to assist in allowing more funds to be allocated to green projects and green technologies as well as in distinguishing truly green activities from merely greenwashing activities.

<The Guideline>

1. Principles of the K-Taxonomy

K-Taxonomy refers to the classification of green economic activities contributing to six environmental goals: greenhouse gas reduction, adaptation to climate change, sustainable water conservation, recycling, pollution prevention and management and biodiversity.

Proper green economic activities must (i) contribute to the achievement of one or more of the six environmental goals above, (ii) not cause any serious damage to other environmental goals in the process of achieving the set environmental goal and (iii) not violate the laws and regulations related to human rights, labor, safety, anti-corruption and destruction of cultural properties.

2. K-Taxonomy and Economic Activities

According to the Guideline, green economic activities consist of (i) the “green sector”, referring to the truly green economic activities essential for carbon neutrality and environmental improvement and (ii) the “transition sector”, activities temporarily included in K-Taxonomy as an intermediary step towards carbon neutrality.

The “green sector” is further classified into greenhouse gas reduction, adaption to climate change, water, circular economy (i.e., recycling and using methane gas), pollution prevention and treatment and biodiversity. The “green sector” consist of 64 green economic activities in total, among which are activities related to industry, power generation and energy and transportation.

The “transition sector” is classified into five economic activities: (i) greenhouse gas reduction activities at SMEs, (ii) energy production based on liquefied natural gas and mixed gas (i.e., the gas that is a mixture of two or more biogas including hydrogen, ammonia, by-product gas and liquefied natural gas), (iii) liquefied natural gas-based hydrogen (blue hydrogen) production, (iv) eco-friendly shipbuilding and (v) eco-friendly ship transportation. Economic activities falling under the “transition sector” include some fossil fuels, but only temporarily until 2030. For liquefied natural gas and mixed gas-based energy production, the extension of its accreditation period up to 2035 is to be determined. The Ministry of Environment has announced that it plans to fortify the level of greenhouse gas reduction in consideration of technology development trends even for economic activities falling under the “transition sector.”

3. K-Taxonomy Conformity Process and Use of the Guideline

To utilize green finance such as green bonds, green loans and green funds, corporations and financial institutions must first confirm whether their economic activities meet the K-Taxonomy requirements. According to the Guideline, if a corporation or a financial institution’s economic activity meets all four standards (activity, accreditation, exclusion and protection), such activity will be deemed to meet the K-Taxonomy requirements.

In determining whether their economic activities meet the K-Taxonomy requirements or making investment-related decisions, corporations and financial institutions may refer to the Guideline for definition and standards for green economic activities. Accordingly, it has become easier for corporations and financial institutions to determine whether their assets, projects or activities are suitable for K-Taxonomy and disclose such results to the public.

<Implications>

The Guideline, along with the “Korean Green Bond Guideline” published in December 2020 by the Ministry of Environment and the Financial Services Commission, provides market participants with a clearer standard on what types of economic activities are true green economic activities. In particular, the Guideline stipulates the different standards (i.e., activity, accreditation, exclusion and protection) in great detail and serves as a very helpful tool for market participants in each industry in applying K-Taxonomy to their activities.

The Ministry of Environment has suggested that the Guideline will be further revised and supplemented after piloting it for a year and that the Ministry will consider market trends such as the EU Taxonomy in making the revisions and supplementations.



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