



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

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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.

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.

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 as follows.

- Industrial green economic activities categorized as the “green sector” consist of core technologies necessary for greenhouse gas reduction, such as electrification and electricity utilization technology, hydrogen-reduced iron and steel, non-carbonates, mixed cement and replacement and removal of fluorinated gases. Furthermore, to recognize the greenhouse gas reduction activities of manufacturing and service industries, there are separate operating standards for greenhouse gas reduction facilities.
- Power generation related green economic activities categorized as the “green sector” consist of renewable energy production activities such as producing energy using solar, solar heat, wind, biomass, biogas, hydrogen or ammonia and related infrastructure construction activities.
- In consideration of greenhouse gas reduction goals and international trends, pollution-free (electricity, solar, hydrogen) vehicle manufacturing, pollution-free public transportation operation and pollution-free transportation have been included in the Transportation category. Hybrid vehicles were considered for inclusion in this sector during the discussion phase of the Guideline but were ultimately excluded.

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.”

- Thermal power plants and nuclear power plants equipped with environmental pollutant reduction devices were considered for inclusion in this sector during the discussion phase of the Guideline but were ultimately excluded. According to the Ministry of Environment, liquefied natural gas energy production has been temporarily included in consideration of Korea’s relatively high dependence on manufacturing and energy-consuming industries and fossil fuels. On the other hand, nuclear power plants were excluded as there are no plans to increase the number of nuclear power plants set out in “2030 Nationally Determined Contributions of Greenhouse Gas Reduction” and “2050 Carbon Neutral Strategy.” However, the Ministry of Environment has also stated that it would continue to review whether nuclear power plants should be included in the K-Taxonomy by keeping track of domestic conditions and various trends worldwide, including those of the EU.

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 the below standards (activity, accreditation, exclusion and protection), such activity will be deemed to meet the K-Taxonomy requirements.

- ① Activity Standard: Whether the economic activity falls under any category of green economic activities.
- ② Accreditation Standard: Whether the economic activity achieves one or more of the six environmental goals.

- ③ Exclusion Standards: Whether the economic activity meets the Do No Significant Harm standard.
- ④ Protection Standard: Whether the economic activity is in compliance of all laws and regulations related to human rights, labor, safety, anti-corruption and destruction of cultural properties.

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.

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.

Here at Shin & Kim, we are keenly aware of the growing interest in and importance of ESG issues. We have a great group of experts specializing in these issues across various fields, including environment, corporate legal affairs, labor, finance and fair trade. Our leading experts include Mr. Kyung Don Lee, our management committee member; Mr. Yong Kook Lee, our senior advisor who served as the Vice President of the Korea Corporate Governance Service, the most authoritative agency related to ESG in Korea; Mr. Gyu-Seok Baek, our senior advisor who served in key positions at the Ministry of Environment; Mr. Daeyong Baek, our legislative advisory practice group partner, who serves as an advisor to the Personal Information Protection Commission; Mr. Chang-Weon Rhee, our partner who has served as the general counsel of Citibank Korea; our M&A partners, Mr. Byung Tae Kim and Mr. Jae Young Chang; our labor practice group partner, Mr. Jong Soo Kim; our environmental practice group partner, Mr. Seong Ik Hwang; our antitrust practice group partner, Mr. Geun-Bae Seok; our finance group partners, Ms. Kyung Hwa Moon and Ms. Soo Young Song; our energy and resources group partner, Ms. Hyun Mi Cho, and many other experts each with more than 10 years of experience in various fields. These experts work together seamlessly as one team to meet the needs of our clients. Based on our expert knowledge of laws and regulations pertaining to the fast-changing field of ESG and our extensive ESG related consulting experience, our group of experts are here to provide high-quality, timely and comprehensive solutions on ESG issues.

[\[Korean version\]](#) 한국형 녹색분류체계(K-Taxonomy) 가이드라인의 내용 및 시사점

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