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CONSULTATION RESPONSE DECEMBER 2020

## EU TAXONOMY DELEGATED ACT ON CLIMATE CHANGE MITIGATION AND ADAPTATION

### E3G COMMENTS TO THE PUBLIC CONSULTATION

E3G welcomes the work of the European Commission on the EU Taxonomy Delegated Act with technical screening criteria on climate change mitigation and adaptation. To maintain credibility of the taxonomy and the coherence across other policy files, E3G makes the following recommendations.

#### Recommendations for the Taxonomy Delegated Act:

- > Keep the thresholds aligned with up-to-date scientific evidence rather than politically justified decisions, adopting a precautionary threshold where evidence is weak.
- > Follow the recommendations of the Technical Expert Group rooted in robust and evidenced work as the baseline for the criteria and improve further where needed, not going below this level of ambition.
- > Clarify that the taxonomy thresholds will be tightened in line with increased ambition under the planned revision of the policy files under the 'Fit for 55' package in 2021.
- > Identify the Delegated Act as the single reference for reporting across companies, financial institutions and public authorities.



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## Context

The taxonomy, pioneered by the Commission in 2018, was presented as a science-based and apolitical tool aligned with the Paris Agreement and the SDGs. Although it was intended to lay the ground for a single market solution, the **momentum behind it has triggered the creation of many taxonomies in other countries**. For example, the **UK Government intends to create its own sustainable finance taxonomy** based on the EU taxonomy scientific metrics.

The **strength of the EU taxonomy is that it sets out science-based screening criteria as a safeguard against greenwashing**. However, the draft Delegated Act (DA) demonstrates that in some instances these screening criteria fail to rely on established policy objectives and scientific evidence. While we recognise that the draft DA has taken into account the Technical Expert Group (TEG) recommendations to a large extent, in some instances the draft has ignored or weakened the TEG scientific advice, or has introduced new activities, which have not been a subject to a rigorous scientific debate. Departing from the TEG recommendations raises the possibility that some of the thresholds could be watered down further following the public consultation.

**Without its scientific basis the taxonomy risks losing its credibility**. If the EU taxonomy is to fulfil the promise of setting the gold standard for the sustainable industries and activities of the future, not only for Europe but for the world, then it will be vital that its rules are based on science and not on political convenience. The role of the Platform on Sustainable Finance will be pivotal in ensuring that this remains the case.

## Assessment by activity

### Energy

#### Fossil fuels

The Commission has rightly maintained the mitigation threshold at 100g CO<sub>2</sub>/kWh as recommended by the TEG to prevent unabated fossil fuelled power generation. The latest science and technological realities suggest that for many end-uses, **fossil gas is no longer the “climate-optimal” solution**. The weakening of this threshold would likely be replicated in other jurisdictions, which would significantly reduce the chances of meeting the Paris Agreement. The TEG recommended a threshold of 100g/kwh, which should decline over time. Recently, the **scientific community has also called for a declining emissions**



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**threshold.** The IEA's modelling (B2DS scenario) suggests that new EU power generation capacity should average at 48g/kwh in 2020. **The 100g CO<sub>2</sub>/kWh threshold should be maintained at the very least and tightened every 5 years in line with climate neutrality by 2050.**

In terms of lifecycle emissions, the draft refers to 3 options to measure GHG emissions: Commission Recommendation 2013/179/EU (PEF), ISO 14067 and ISO 14064-1. Among the methodologies proposed, the Recommendation 2013/179/EU (PEF) would be the preferred one. ISO 14067 is a relative methodology and as such it would only increase complexity and reduce comparability of assessments. ISO 14067 does not define what 'significantly' means in quantitative terms, while PEF does it, meaning that upstream emissions (including fugitive methane emissions) would be covered.

**DNSH:** The 270g/kwh threshold should be tightened and conditions for its application introduced:

- The 270g/kwh currently refers to direct emissions. This should be covering life-cycle emissions too to avoid different standards across the taxonomy and ensure the significant upstream emissions of natural gas are covered.
- New EU generation capacity averaged at 200g/kwh in 2016 already. We thus think that a transitional threshold should be set in relation to current regional averages, to be updated regularly in light of progress in the economy. This more accurately captures the climate risk dimension and avoids greenwashing, as otherwise new gas capacity or investments into adaptation of existing capacity locks-in a slower emissions reductions path.
- An investment should only be considered as DNSH if it presents a viable pathway to 100% hydrogen or biogas and it includes all investments needed to achieve this. This would ensure a transition to a full zero emissions system in the medium term.

#### **Gas transmission and distribution networks**

The draft DA has new categories that allow for integration of hydrogen and other low-carbon gases in construction or operation of new transmission and distribution networks. This is likely to encourage blending with fossil gas which is only compatible with climate neutrality if networks can eventually convert to 100% renewable hydrogen or biomethane over time. **Blending should thus be a transitional activity only.**



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No fossil gas transmission and distribution network activities should be eligible as sustainable activity, unless:

- this presents a conversion to 100% hydrogen or biogas use, and
- there are credible plans for renewable hydrogen or biogas production to be ramped up that can be connected to this pipe within the payback time of this investments, and
- potential for demand for hydrogen or biogas has been assessed independently in light of increased deployment of efficiency and electrification measures.

The draft DA includes methane leakage detection requirements. **The draft DA should be revised to include a minimum standard of improvement for leak detection and repair to be eligible.**

#### Bioenergy

The draft DA enables forest biomass to be burned as feedstock for power generation and that any activity that is aligned with the flawed RED II is counted as sustainable. This deviates from the TEG recommendation to restrict eligibility to bioenergy produced from advanced feedstocks identified in Annex IX of RED II and to reduce the emissions threshold over time. The RED II criteria will be reviewed in 2021 and over a **hundred NGOs are calling for excluding forest biomass as an eligible fuel.**

The use of forest biomass is not aligned with climate neutrality since it could have no net positive impact or even a negative impact on emissions. In its 2016 **impact assessment on the sustainability of biomass** the Commission deduced that it takes between 20 years to centuries to achieve emissions savings from forest biomass feedstocks while carbon sinks are seeing losses due to demand for forest biomass. **The draft DA should be reviewed to restrict feedstocks to advanced feedstocks and align with climate neutrality by 2050 by excluding forest biomass and reducing the emissions threshold every 5 years.**

#### Hydropower

The draft DA deviates from the TEG recommendation that the construction of small hydropower should be avoided considering the environmental impacts on biodiversity. **150 NGOs have called for no new hydropower** to be built in Europe. **The draft DA should follow the TEG recommendation to prevent the construction of small hydropower plants.**



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### Biofuels and biogas for use in transport

The draft DA weakens the TEG recommendation which recommended making biofuels and biogas from advanced feedstocks in Annex IX of the REDII eligible. Instead, the draft DA recommends that feedstocks comply with the general criteria of REDII. The draft DA mentions that food and feed crops should not be used for biofuels production but the draft DA lacks similar criteria on biogas. **The DA should be revised in line with the TEG recommendations to restrict to biofuel and biogas production from advanced feedstocks. The criteria should be tightened in line with the planned revision of the RED in 2021.**

### Incineration

The draft DA follows the TEG recommendations to exclude waste incineration since it undermines activities higher up in the waste hierarchy. **The DA should maintain the exclusion of incineration.**

### District heating and cooling distribution

The draft DA follows the TEG recommendations to meet the definition of efficient district heating and cooling systems from the outdated Energy Efficiency Directive (EED) from 2012. This requires using at least 50% renewable energy or 50% waste heat or 75% cogenerated heat or 50% of a combination of such energy and heat which is not aligned with climate neutrality. The EED will be revised in 2021. **The DA should tighten the criteria in line with the planned revision of the EED in 2021.**

### Electric heat pumps

Heat pumps will have a major role to play in the decarbonisation of heat. A 'fabric first' approach might be considered, ensuring that homes are sufficiently insulated prior to installation. **The DA should tighten the requirements to ensure that homes are sufficiently insulated prior to installation.**

### Manufacturing

#### Cement, aluminium, iron and steel, chemicals, ammonia

For manufacturing activities, in most cases the thresholds simply reflect EU ETS benchmarks referring to the 10% most efficient installations in a given sector. While these are currently being updated for the period of 2021-2026, they will not yet reflect technologies that would shift these industries onto a pathway compatible with climate neutrality by 2050. The taxonomy as it stands would therefore encourage investment in incremental mitigation technologies that could lead to high carbon lock-in. For example, in the steel sector, an investment in a more energy efficient blast furnace could count as a substantial contribution



E3G

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to climate change mitigation, when that investment would in fact lock in 20-30 more years of carbon-intensive production. **The DA should reflect technologies that would shift these industries onto a pathway compatible with climate neutrality by 2050.**

#### Hydrogen

The draft DA has improved the emission threshold recommended by the TEG. However, in order to comply with the science-based nature of the taxonomy, we would welcome **transparency over the methodology used to calculate this threshold**, so it can be updated as science improves.

The threshold for sustainable activities should be maintained. A lower threshold would be too low for solar production of hydrogen. There are concerns that the current threshold may be too low to allow for this depending on the calculation methodology used – this emphasises the need for transparency over the methodology.

We recommend that to ensure integrity of the taxonomy, **fossil-based hydrogen in combination with CCS is only included as a transitional activity**, given the high uncertainty over methane leakage and permanence of captured emissions.

It is unclear whether the proposed methodology accounts for upstream emissions. In terms of lifecycle emissions, the delegate act refers to 3 options: Recommendation 2013/179/EU (PEF), ISO 14067 and ISO 14064-1. Among the methodologies proposed, the **Recommendation 2013/179/EU (PEF) would be the preferred one**. ISO 14067 is a relative methodology and as such it would only increase complexity and reduce comparability of assessments. ISO 14067 does not define what ‘significantly’ means in quantitative terms, while PEF does it, meaning that upstream emissions (including fugitive methane emissions) would be covered.

#### Cement

The TEG recommendation to exclude refuse-derived fuel (RDF) in cement plants has not been followed. **The DA should be revised to exclude RDF in cement plants.**

#### Plastic

The criteria on reducing single-use plastics recommended by the TEG are not included in the draft DA. TEG recommendations had also recommended a ‘value chain’ approach which includes a maximum threshold related to the use of



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plastics in single-use products downstream. **The DA should follow the TEG recommendations for single-use plastics.**

## **Construction and real estate**

### **Construction of new buildings**

For construction activities, the draft DA has maintained the requirement to improve the energy performance by 20% compared to each Member State's nearly zero-energy building (NZEB) requirements. The Commission has also improved the TEG recommendation and now requires life cycle analysis for buildings larger than 5000 m<sup>2</sup> to be disclosed. For the DNSH criteria the draft DA requires EPC certification and compliance with NZEB requirements. **The DA should maintain the criteria of the draft DA, including life-cycle analysis disclosure.**

Noting that NZEB can vary significantly between Members States, the Commission can offer guidance on minimum standards. For example, this could include at a minimum:

- No fossil fuel heating or cooking;
- Passivhaus standards for demand and energy efficiency standards, or EPC A standard (Energy Efficiency Rating and Environmental Impact Rating) for sustainable buildings, or EPC A standard (Energy Efficiency Rating and Environmental Impact Rating);
- Resiliency considerations (i.e., considerations on flooding, over-heating, including measures such as green roofs and passive cooling);
- Promoting generation and storage of renewable energy on site, where possible;
- Circular design, with sustainable materials and supply chains.

### **Renovation of existing buildings**

The draft DA maintains the TEG recommendations which proposed very weak requirements for building renovations. The draft DA only requires renovations to deliver 30% primary energy savings. Yet it is essential to increase the number of deep renovations, typically defined as resulting in at least 60% energy savings. Shallow renovations would fall short on emissions reductions, air quality improvement, energy poverty reduction and job creation, hindering the chances



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of meeting the Renovation Wave goals. **The draft DA should require at least 60% energy savings. Alternatively, it should be based on a minimum EPC rating of A.**

The draft DA proposes alternative criteria consisting of complying with the requirements for a major renovation in the Energy Performance of Buildings Directive (EPBD) from 2010. The EPBD will be revised next year. This implies that the taxonomy does not require better levels of performance than what building codes require. On the other hand, the DNSH criteria make no mention of the EPBD and simply require the building to not be dedicated to extraction, storage, transport or manufacture of fossil fuels. This falls critically short of what is needed for the Renovation Wave. **The draft DA should go beyond what the EPBD requires for its significant contribution threshold and should use the requirements for a major renovation in the EPBD as its DNSH threshold. The criteria should be tightened in line with the planned revision of the EPBD in 2021.**

#### Acquisition and ownership of buildings

For the acquisition and ownership of buildings, the Delegated Act has improved the TEG recommendation and has set the threshold at an EPC rating of A. This is what is needed to implement the minimum energy performance standards which will be proposed in next year's revision of the Energy Performance of Buildings Directive. **The DA should maintain the EPC rating of A as its threshold.**

We note the limitations of EPCs, and that some countries are working to increase their accuracy and utility as a tool to inform retrofit decisions. For instance, work can be undertaken to incorporate real-time data on energy savings and performance (for instance, through a metered energy savings approach).

There is mounting pressure from investors to water down the energy class A standard due to concerns that high standards will limit investment opportunities. It is crucial that the draft DA encourages investors to meet high standards rather than enable a short-term boost in 'green' investment while locking in embodied carbon for decades. An alternative would be to provide the option to renovate the building to an EPC rating of A within a defined period after the acquisition.

#### Agriculture and forestry

##### Agriculture

The draft DA has retained the TEG recommendation to require a farm sustainability plan. On the other hand, the requirement for reducing emissions



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through a specific emissions reduction trajectory has been removed. **The DA should reinstate a specific emissions reduction trajectory.**

#### Livestock

Livestock production is carbon-intensive, polluting and causes deforestation. It is also a major source of concern for animal welfare and human health. The draft DA has removed the TEG recommendations to reduce emissions through a specific reduction trajectory. **The DA should reinstate a specific emissions reduction trajectory and restrict the activity to organic livestock.**

#### Forestry

The notion of sustainable forest management has been developed since the 1990s and the TEG recommendations linked the notion of sustainable agriculture to sustainable forest management. However, the draft DA would allow short-term rotation below 20 years which is not aligned with climate neutrality and could lead to forest degradation and biodiversity loss. The draft DA also does not contain sufficient safeguards to exclude the conversion of carbon-rich soils to forest and protect existing forests and enrich biodiversity by promoting afforestation with native species. **The DA should be tightened in line with the TEG recommendations.**

#### Transport

##### Sea and coastal water transport

For sea and coastal water transport, the draft DA has not taken into account Article 23.4 of the Taxonomy Regulation, which stipulates that in the process of the development of the DA and prior to its adoption, all necessary expertise must be gathered. In the draft, activities with low thresholds have been included without prior consultation. **Sea and coastal transport thresholds, should therefore, be excluded from the Taxonomy DA at this stage and should be first examined by the Platform on Sustainable Finance prior to their adoption.**

#### Additional assessment

##### Adaptation

The language of the draft DA on adaptation activities leaves room for interpretation on whether investments in new fossil assets with adaptation measures are entirely eligible for green financing. The TEG recommended that only the cost of the actions required to adapt the activity can be counted. The adaptation criteria for substantial contribution and DNSH should be reviewed to



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eliminate loopholes enabling investments in unabated fossil fuels. **The DA should clarify that only the costs of adaptation measures to adapt an activity can be counted as sustainable rather the costs of the entire activity.**

#### **GHG emissions accounting methodologies**

The draft DA leaves a lot of choice to Taxonomy users regarding the methodology they use to account Greenhouse Gas emissions, which creates real problems from a comparability, consistency and reliability point of view. **The draft DA should propose that users employ the Product Environmental Footprint (PEF) methodology, the harmonised European way of carrying out a Life Cycle Assessment.**

#### **CONTACT**

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#### **About E3G**

E3G is an independent climate change think tank accelerating the transition to a climate safe world. E3G builds cross-sectoral coalitions to achieve carefully defined outcomes, chosen for their capacity to leverage change. E3G works closely with like-minded partners in government, politics, business, civil society, science, the media, public interest foundations and elsewhere. In 2018, E3G was ranked the fifth most globally influential environmental think tank for the third year running.

More information is available at [www.e3g.org](http://www.e3g.org)

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