



## EU Sustainable Finance Taxonomy - Draft Delegated Act

### Feedback from Climate Action Network Europe to the European Commission's Have Your Say Initiative

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This document sets out Climate Action Network (CAN) Europe's feedback to the European Commission's draft Delegated Act on the EU Sustainable Taxonomy, for economic activities having a substantial contribution to climate mitigation and climate adaptation while doing no significant harm (DNSH) to climate and environmental objectives.

Given the EU Taxonomy's applicability in EU regulation on corporations and private investment, in EU budget spending programmes, and its gradual adoption by the EIB, it has the potential to drastically improve current approaches to climate tracking and to guiding investments to support the achievement of increased ambition in EU climate and energy targets.

To do this the EU Taxonomy must be underpinned by science and stringency to incentivise transformational changes, and it must be capable of dynamic alignment with the EU's climate goals; crucially the commitment to reach net zero emissions as the EU's long term strategy, and the Paris Agreement ambition cycle which requires a ratcheting up of ambition every 5 years, and associated upwards revision of the ambition of climate and energy legislation.

Moreover the draft delegated act needs improving in a number of areas: certain criteria require a more robust and stringent science based approach, otherwise they risk incentivising investment in harmful activities under the cover of 'green'.

In addition, while the Taxonomy has been designed to supplement EU standards and regulations, it is not yet fully ready for application in all other countries. There should be caution in its application in contexts outside the EU, especially in the development context. A thorough review needs to be conducted to ensure it delivers on development objectives, tackles rather than exacerbates inequalities, and does not put up barriers to access to finance for smaller actors, and in particular for adaptation.

#### *Detailed recommendations:*

The emissions **performance standard for energy generation to substantially contribute to mitigation objectives**, set at 100gr CO<sub>2</sub>eq/KWh threshold, should be maintained as a starting point and tightened at least every 5 years.

Moreover the **'do no significant harm' (DNSH) threshold for climate change mitigation, set at 270 gr CO<sub>2</sub>eq/kWh**, should not allow for loopholes enabling support for activities

involving the combustion of fossil fuels. Electricity or heat generation based on unabated fossil methane blended with hydrogen, be it in gas turbines or gas boilers, potentially fall below the stated 270 gr CO<sub>2</sub>eq/KWh threshold. Fossil gas fired boilers as individual heating systems in households or industry, or combined heat and power generation also can stay below the DNSH limits. Though these activities still do harm climate change mitigation objectives. It perpetuates linear, fossil fuel based systems of resources extraction, fossil fuel combustion and the related emissions of greenhouse gases over the lifetime of the installation, prolonging the life-span of high-emitting activities. And ultimately it is delaying the transition to a low-carbon economy as it gets in the way of sustainable approaches such as energy savings and renewable energy. Instead, the emissions performance criteria should be designed in such a way as to prevent the support for any fossil fuel activities or operations in energy generation or adaptation of energy generation.

DNSH criteria for 'Construction and real estate' specify that buildings must not be dedicated to extraction, storage, transport or manufacture of fossil fuels. This must be applied accordingly across other economic activities: each DNSH criterion should include fossil fuel exclusion for any relevant infrastructure.

The draft Delegated Act envisages a substantial contribution to climate change mitigation for activities where **Carbon Capture and Storage (CCS) would enable meeting the sustainability threshold**. However, this runs against the Energy Efficiency First principle and carries the risk of incentivising investment in fossil fuels with CCS and emission-intensive electricity production could be labelled as 'making a substantial contribution to climate change mitigation' after combining fossil fuel-fired power plants with CCS technologies. CAN Europe rejects the introduction of post-combustion CCS in the power sector.

When it comes to the **transmission of electricity or the installation of charging infrastructure**, 100% of the newly connected generation capacity in the system where infrastructure or equipment is to be installed must remain below the generation threshold value of 100gr CO<sub>2</sub>eq/KWh of electricity. This would ensure only electricity grids and charging infrastructure can be labelled as sustainable where no new fossil power plants are installed.

CAN Europe opposes newly built dams for hydropower. The installation of new **pumped-hydro storage** could come along with significant environmental damage potentially comparable to the construction of new dams. Newly built pumped-hydro storage reservoirs thus could probably even be considered as causing significant harm.

The draft Delegated Act criteria on the **manufacture of hydrogen** do not explicitly exclude fossil fuels and nuclear power for hydrogen production. It is also not clear enough whether upstream emissions (i.e. fugitive methane emissions) are taken into account and how.

The criteria for the "substantial contribution to climate change mitigation" for the **renovation of existing buildings** are defined as either the building renovation's compliance with the applicable requirements for major renovations, or that it leads to a reduction of primary energy demand (PED) of at least 30 %.

To incentivise transformational change though, a substantial increase in the rate and depth of energy renovations is needed. According to a [2019 report](#) from the European Commission,

30% of reduction in PED only corresponds to the upper end of what is considered as “shallow renovation”. The European Commission, in the Renovation Wave Communication (COM(2020) 662 final), also refers to energy savings of at least 60% linked to deep renovations, thus twice as much compared to what the taxonomy envisages. Therefore, if the EU wants to actually prioritise **deep renovations in line with the climate neutrality objective** and the Renovation Wave strategy, a higher threshold for the reduction of PED than what is currently in the proposal should be envisaged.

Moreover, the reference to the existing applicable requirements for major renovations has to be clarified. The wording of the taxonomy recalls the one of the Energy Performance of Buildings Directive (EPBD) in its amended version (2018/844/EU). However, this wording is currently very static, while the EPBD is to be reviewed by the end of 2021, including the phased introduction of mandatory minimum energy performance standards, as foreseen by the Renovation Wave. It is therefore imperative that the criteria of the taxonomy are formulated in a way that fosters upward revisions of the EU legislation, in this case related to the minimum requirements. Finally, when two alternative criteria are available, the one that results in the highest energy savings should be applied.

The taxonomy should not attempt to legitimise **industrial animal production** by focusing on technical fixes. It needs to instead direct efforts to more environmentally-benign systems such as organic and agro-ecological farming, with far fewer and healthier animals in conditions of much higher welfare, and with stocking densities which do not exceed the carrying capacity of the land.

The **DNSH adaptation criteria** are a step forward since adaptation efforts are not sufficiently addressed across the EU in public and private investment. Key public and private services and sectors need to play a more active role in adaptation to climate change. For investment into activities with a lifecycle of over 5 years, the climate risk and vulnerability assessments and plans developed by economic operators, should be reviewed every 5 years, in line with requirements of the Paris Agreement. This should reflect the latest scientific information and evidence, and align with EU Member States climate vulnerability assessments and local, sectoral, regional or national adaptation efforts as available.

For activities making a **substantial contribution to adaptation**, in the case of adapted activities, only the cost of the actions required to adapt the activity should be counted. . This will reduce the risk of adaptation being used as a means of labelling larger investments with limited environmental benefits as ‘green’.

Operationalising the adaptation criteria will require the continued development of adaptation skills and knowledge. There should be special consideration and support for smaller actors to ensure they are able to attain the criteria. The forthcoming EU Adaptation Strategy will need to take measures to address current knowledge, data and information gaps and ensure support and information is available to support attainment of the taxonomy adaptation criteria. EU Member States, in cooperation with cities, local authorities and other non-state actors should regularly complete and publish climate vulnerability assessments at local, regional and national level.

The EU Taxonomy will gradually be **adopted by the EIB** through its new Climate Bank Roadmap. The new European Fund for Sustainable Development Plus may also adopt the taxonomy to guide investments in certain countries and contexts. Therefore it is necessary to assess whether the **taxonomy's classification of mitigation and adaptation objectives are appropriate in different local and national development contexts**, and whether its application supports the achievement of Agenda 2030, and other EU and international development commitments such as the Sendai Framework for Disaster Risk Reduction.

The EU taxonomy has been designed around EU NACE codes, EU regulations, legislation, and standards, and therefore comprehensive work is needed to assess its translation to further economic and regulatory environments. Economic activities in developing countries which make a substantial contribution to mitigation and adaptation objectives vary significantly. Adaptation activities in particular can be complex and fall outside the usual boxes, for example water, sanitation and hygiene services (WASH) and community-led weather monitoring, warning and planning systems. Least developed countries face far greater adaptation, water and land use challenges, as well as actors with fewer resources.

Moreover criteria for assessing contributions or do no significant harm either may not apply in some contexts (for example buildings requirements as currently expressed in the taxonomy) or be extremely challenging to operationalise, in terms of usability, data and tool requirements. This should not be at the cost of blocking access to finance and investment, in particular for smaller actors and vulnerable communities, already a risk factor with the EU's new EFSD+, and who are essential actors for delivering on the SDGs and for tackling inequalities.

Before application in developing contexts, a thorough review of the taxonomy needs to be conducted by development experts and civil society, including representatives and experts in mitigation and adaptation for development from the EU's partner countries. The taxonomy should be assessed at strategic level for its alignment with development objectives and tackling inequalities, the Sendai Framework, and development effectiveness principles. Categorisation of economic activities and translation / harmonization of criteria into different contexts should be assessed on a detailed technical level, to ensure inappropriate barriers are not put up to access to finance for small actors. This assessment should also make recommendations on technical assistance and capacity building to accompany its application - in particular for adaptation activities, where lack of data, viable business models and overall levels of financing and investment are huge challenges. This should support creating commons - free access to shared resources - and best publicly available environmental data.

*ENDS*

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