

## **Bellona Europa Feedback: Sustainable Finance – EU Classification System for Green Investments**

The European Commission's continued dedication to a timely finalisation of the Sustainable Finance Taxonomy Delegated Acts (DAs) on climate change mitigation and adaptation is commendable. We are happy to see that the published DAs stay close to the Technical Expert Group's (TEG) recommendations presented in March of this year. This is in line with the [recommendations](#) presented by Bellona Europa in April of this year.

The final DAs will define the future role and uptake of the Taxonomy, and above all its ability to direct capital to sustainable investment projects. Through our analysis of the DAs published on the 20<sup>th</sup> of November we have identified several steps and recommendations to ensure the climate impact credibility of the Taxonomy, and support its long-term relevance and uptake.

### ***Safeguard the scientific basis of the DAs through the technology neutral climate mitigation threshold set at 100g CO<sub>2</sub>e/kWh***

#### ***1. Keep the set value of the substantial contribution to climate change mitigation criterion for electricity at 100g CO<sub>2</sub>e/kWh***

The retention of the life-cycle emission threshold of 100g CO<sub>2</sub>e/kWh ensures the scientific basis of the Taxonomy, and that unabated natural-gas fired power generation is not seen as sustainable under the climate change mitigation objective of the Taxonomy.

The European Commission has held its ground against heavy pressure from special interest groups to ensure alignment with their expert group's advice from March 2020. It is imperative that the ambitious 100g CO<sub>2</sub>e/kWh threshold is kept intact in the final version of the DAs – although a reinstatement of its declining nature is necessary, as outlined in recommendation 2.

### ***Absolute metrics: jeopardizing the long-term relevance and credibility of the Taxonomy***

#### ***2. Reinstate the declining nature of the 100g CO<sub>2</sub>e/kWh life cycle emission threshold***

The decision to remove the declining nature of the 100g CO<sub>2</sub>e/kWh is concerning. It puts the continued long-term relevance of the Taxonomy as a whole in jeopardy. While the threshold might reflect a high level of ambition today, the lack of a set trajectory to net-zero by 2050 harms the future relevance of the Taxonomy, leaving it out-of-touch with both technological and market developments in a relatively short span of time. Although subject to review every three years, this is only the case for so-called "transitional activities" which does not encompass all activities subject to the threshold. The lack of a clear direction of such pending reviews, does not ensure that it will be ambitious also in the future and aligned with the EU's climate target of net-zero by 2050. As such, the threshold could become a tool for keeping "business as usual", rather than a "gold standard" pushing innovation and generating much-needed capital to facilitate climate change mitigation. The uncertainty of the review process and its direction and level of ambition also reduces the predictability for financial market actors. As such it increases the capital risk and the full potential of the

Taxonomy to incentivise investments in sustainable economic activities is not met. If the aim is truly to keep the threshold as simple as possible, certainty and predictability is needed – and its declining nature towards net-zero must be reinstated.

**3. Reinstatement of full life-cycle climate change mitigation DNSH criteria and set a clear reference and declining trajectory for review in line with technological and market developments**

The climate adaptation category DNSH criterion for climate mitigation is currently set at 270g CO<sub>2</sub>e/kWh, in theory low enough to rule out unabated fossil gas claiming eligibility under the Taxonomy - a state of the art gas power plant could get down to 350g CO<sub>2</sub>e/kWh at best. Whilst the intention to avoid detrimental impact is commendable, this DNSH criterion is at best weak. Numbers from think-tank [Ember](#) suggests that a gas power plant using little more than 20 % hydrogen (and for the rest fossil gas) could get below 270g CO<sub>2</sub>e/kWh. See recommendation 3 for identification of loopholes enabling inaction through the criteria.

Additionally, the absolute nature of the DNSH criteria promises to leave the Taxonomy lagging behind, not “future-proof” to the technological and market developments of the future. Coupled with the change from full life-cycle threshold to a direct emission threshold, the DNSH criteria will soon be even less ambitious than “business as usual”. This will significantly harm the credibility of the sustainable finance Taxonomy as a whole.

A clear declining trajectory should be identified and included. This was somewhat successfully done by the TEG’s recommendations, where a reference to the IEA regional average would put in place an automatic update in line with market conditions and developments. While the shift from basing the DNSH on numbers from the IEA to now the EEA is not a great concern in and of itself, the lack of any reference and set automatic review process with a declining trajectory is concerning.

We understand that the shift from the TEG’s recommendation of a full life-cycle threshold to the now DNSH direct emission threshold was the result of the IEA reference being based on only direct emissions, and that a methodological adjustment was warranted. It is our strong recommendation, however, that the European Commission reinstitutes the full life-cycle approach with an appropriate reference to a European average, based on a full life-cycle approach. Only counting direct emissions would not take into account upstream emissions from power production, which in the case of gas are highly significant. As explained in detail in the section below, the strength of the DNSH criteria is vital to safeguard the climate impact credibility of the Taxonomy, and without it looms loopholes for fossil gas to claim eligibility as sustainable under the Taxonomy.

## **Adaptation: creating unintended loopholes for fossil gas’ re-entry into the Taxonomy**

We appreciate the dedicated efforts by the European Commission to set out a clear distinction between activities enabling adaptation and adaptation activities, a distinction imperative to the

upcoming DA to be presented under Article 8 of the Taxonomy Regulation. We understand that a possible reason for removing the TEG recommendation to ensure that “only the cost of the actions required to adapt the activity can be counted” is that it will be further addressed in this DA resulting from Article 8 of the Taxonomy Regulation. We will therefore not go further into detail on the matter here, but urge that the European Commission also publishes the DA resulting from article 8 to public feedback through an open consultation, and does not keep official feedback channels open only to the ESAs.

Much-needed specification of the climate adaptation criteria have been added in the DAs presented by the Commission. The non-specific reference “to the extent possible and on a best effort basis” has been removed to reduce uncertainty and potential loopholes. We commend the European Commission for taking the threat of unintended loopholes seriously, and find the amendments encouraging. Through our analysis of the adaptation criteria, we have identified further alarming loopholes that, unaddressed, would provide a backdoor entry for fossil gas into the Taxonomy.

By design, the adaptation criteria are broad and take into account the necessary qualitative considerations when determining which economic activities are eligible under the sustainable finance Taxonomy. However, the draft DAs as they currently stand do not include sufficient checks and balances to safeguard the climate impact of Taxonomy eligible investments under adaptation. We find ample ground for concern that the DNSH criteria as it stands could be further weakened or even circumvented entirely in combination with the sustainability criteria for adaptation. We therefore present the below recommendation:

#### **4. Remove exemption allowing projects with a lifespan below 10 years to be assessed against “downscaled climate projections”**

The newly introduced “Sustainability contribution to climate change adaptation” sets out that adaptation activities should be subject to a “robust climate risk and vulnerability assessment”. The exemption provided to projects with a lifespan below 10 years in point a), however, moves away from this principle, and creates loopholes to circumvent the already weak DNSH criteria.

*a) “for investments into adaptation solutions activities with an expected lifespan of less than 10 years, the assessment is performed, at least by using downscaling of climate projections”*

Bearing in mind our above remarks on the need to strengthen the DNSH climate change mitigation criteria under adaptation (270g CO<sub>2</sub>e/kWh), any project that can claim a lifespan below 10 years will seemingly not be subject to it at all through downscaled climate projections. As there is seemingly no specification as to what determines a “lifespan”, it could be possible to claim a planned future shift to low-carbon alternatives as an end to the current activity, thus reducing the DNSH threshold now. Quite clearly, such an interpretation would disincentivize and delay investments facilitating the shift to a low-carbon economy, and in fact prolong the life span of the activity in question. The investment could also circumvent allegations of leading to stranded assets or lock-in, if the facilities in question could be used for low-carbon alternatives in the future. Additionally, there is no enforceable requirement to make sure the planned shift to low-carbon alternatives is made after the

‘sustainable’ investment is secured.

To illustrate this through an example, a gas power plant facing water stress could under the adaptation criteria claim an investment into new turbines as an adaptation measure. For this to be eligible under the Taxonomy, however, the investment would need to be aligned with the DNSH criteria of 270g CO<sub>2</sub>e/kWh. There are however, two ways in which the DNSH criteria could be weakened and circumvented.

*1. The gas power plant in question reach the DNSH criteria by burning 20% hydrogen in addition to fossil gas – as outlined in the section above.*

*2. The gas power plant claims a planned future shift to low-carbon alternatives (biogas, hydrogen within 10 years) as an end to the current activity, effectively rendering the already weak DNSH criteria void. As such, the gas power plant could circumvent the need to make even minor efforts to reduce emissions. The investment in question could also circumvent any allegations of contributing to a lock-in as the facilities in question could be used for low-carbon alternatives in the future. There are, however, no enforceable requirements to actually ensure that the planned shift is made once the “sustainable” investment label is secured.*

Based on the two examples above, it is clear that as it stands investments through adaptation could in reality be used to channel “sustainable finance” into prolonging the lifespan of unabated fossil fuels, or even investments into new fossil infrastructure under the guise of climate adaptation.

The Sustainable Finance Taxonomy is supposed to be the EU’s key tool to avoid a lock-in of emission-intensive fossil installations that render its climate targets unattainable. The Climate adaptation criteria cannot be allowed to open a backdoor for fossils to sneak back inside. Loopholes that would not only delay the transition to a low-carbon economy, but also damage the credibility of the Taxonomy as whole, must not be allowed to sink this crucial policy. We therefore strongly urge that the European Commission removes the exemption for projects with a lifespan below 10 years, to avoid policy failure and to instead produce clear and detailed guidelines to ensure the intent and interpretation of the DNSH criteria for climate change mitigation under adaptation.

### **Section 3, Manufacturing: Ensure ambitious thresholds in line with long-term technological and market developments**

#### **5. Ensure ambitious threshold in line with long-term technological and market developments**

While we appreciate that the technical screening criteria for several of the economic activities under section 3, manufacturing, is clearly referenced to a baseline and thus includes an automatic update of the thresholds, we find the baseline set as problematic for various reasons.

The threshold set as “the average value of the top 10% of installations based on the data

collected in the context of establishing the EU ETS industrial benchmarks for the period of 2021 – 2026" will not be sufficiently ambitious to steer the industries in question on to a path in line with the EU climate neutrality target by 2050. The EU ETS benchmarks has had several failures so far, in that it created dynamics which stagnated innovation, instead of facilitating it, as it lowered the incentive for those in the top 10% to pursue further innovation which would have lowered the benchmark for others. Furthermore, the EU ETS benchmarks operate as reduction trajectories which reduce so slowly that the trajectories they give go far beyond the 2050 carbon neutral horizon (beyond even the 21<sup>st</sup> century). Basing this assessment on a system which has already been demonstrated to lead to stalling emission reductions is a guaranteed future problem. It could well be that the EU ETS benchmark system will suffer serious modifications after 2030, precisely because of these problems – and so building them into the Taxonomy could result in future uncertainty (or trajectories misaligned with the goal of a carbon neutral EU by 2050)

#### **Section 4, Energy: Ensure proper emission accounting and remove reference to undefined “low-carbon gases”**

##### **6. Ensure that point 4.14 of both DAs on “Transmission and distribution networks for renewable and low-carbon gases” does not enable construction of fossil gas infrastructure**

As it currently stands, the second paragraph of point 4.14’s activity description reads:  
*“Construction or operation of transmission and distribution pipelines dedicated to the transport of hydrogen or other low-carbon gases”*

Firstly, the reference to hydrogen here needs to specify that only investments under point 4.14 into hydrogen aligned with the DA technical screening criteria for hydrogen are eligible. This will ensure that construction or operation of transmission and distribution pipelines dedicated to unabated fossil-generated hydrogen (i.e. grey hydrogen) does not become eligible under the Taxonomy.

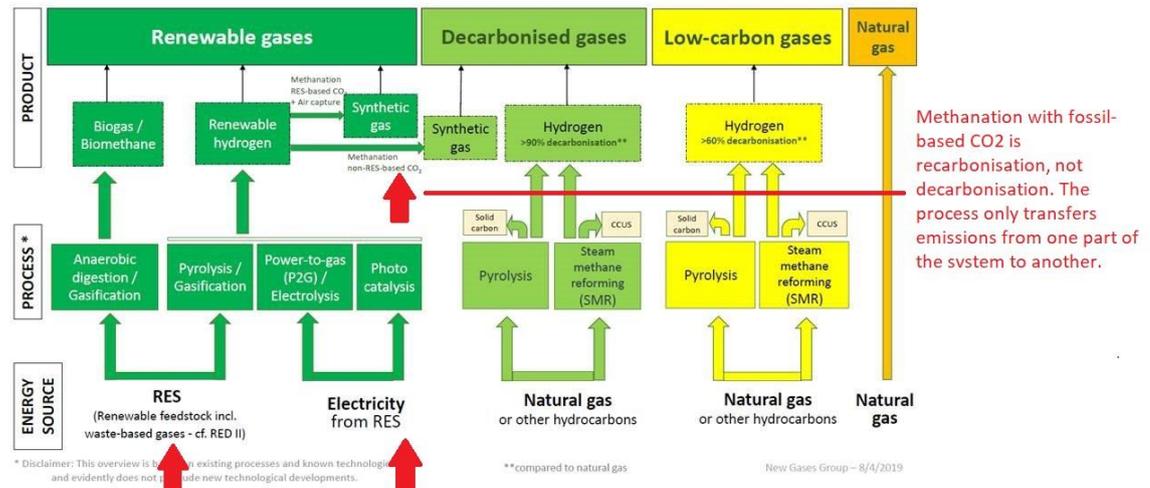
Secondly, the inclusion of ill-defined low-carbon gases in the Taxonomy DAs would still allow the construction of fossil gas infrastructure. Since some of these gases are chemically identical and interchangeable with fossil gas, existing and new gas infrastructure could be relabelled as ‘low-carbon gas-ready’. Bellona Europa has previously [written](#) extensively on the use of confusing and often times misleading terminology such as “renewable” and “low-carbon” gas to obfuscate the future gas mix. In reviewing the DA and the Taxonomy regulation we find no definition or specification of what is included in the category “low-carbon gases” and at the bare minimum a definition must be included. We also see the need to significantly strengthen the DNSH criteria for climate change mitigation under adaptation.

The illustration below was [presented](#) by a group of gas company federations<sup>1</sup> during the last Madrid Forum, providing their view on how renewable, decarbonised and low-carbon gases should be defined. However, as our comments in red point out, the climate impact of these

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<sup>1</sup> CEDEC, European Biogas Association, ENTSO-G, Eurogas, GEODE, Gas Infrastructure Europe

categories of renewable and decarbonised gases is highly questionable and could easily result in emissions of fossil GHGs to the atmosphere.<sup>2</sup>



Waste based gases are not a renewable feedstock. E.g. blast furnace gas has the biggest GHG footprint per TJ of energy produced (259.4 tCO<sub>2</sub>/TJ - in comparison, natural gas is 56.1 tCO<sub>2</sub>/TJ) Another example would be the use of syngas from pyrolysis/gasification of plastic waste. Not only would this prevent actual GHG reductions by discounting the emissions as 'waste', but it would disincentivize reduction&recycling of the waste in question.

The electricity input needs to be entirely renewable. E.g. if PtL/PtG is produced with the current German grid mix, the fuels have a footprint >330 gCO<sub>2</sub>/MJ (for comparison, fossil diesel: 94,1 gCO<sub>2</sub>/MJ)

We cannot allow for overestimated potentials of a broad category of ill defined 'low-carbon' gases to justify the further development of already existing gas infrastructure when it is not in line with European Green Deal, the climate target of net-zero by 2050 - and certainly not part of the "Gold standard" set by the Taxonomy to incentivise investments into sustainable economic activity. The Taxonomy should primarily support grid expansion, interconnection and distribution and forego new investments in the gas sector or any equivalent fuels with a questionable climate impact. If any additional transmission and distribution networks are supported, they should be dedicated specifically to the transport of low-carbon hydrogen, low-carbon ammonia and blending with fossil gas should be avoided.

## 7. Ensure proper and harmonised emissions accounting methodology of Hydrogen under point 3.9, ensuring transparency and comparability

We welcome the more ambitious target presented by the European Commission under

<sup>2</sup> For more information on the various climate footprints of low-carbon gases and smart sector integration see the following consultation response: [https://network.bellona.org/content/uploads/sites/3/2020/06/ConsultationResponse\\_SmartSectorIntegration\\_-1.pdf](https://network.bellona.org/content/uploads/sites/3/2020/06/ConsultationResponse_SmartSectorIntegration_-1.pdf)

section 3.9 “Manufacture of Hydrogen” and the efforts made to ensure regulatory harmonisation and alignment with the European Hydrogen Strategy.

We also note that there are three possible methodologies to use when calculating life-cycle GHG emissions under point 3.9: “Life cycle GHG emissions savings are verified in line with Article 30 of Directive (EU) 2018/2001 or, alternatively, using ISO 14067:2018 or ISO 14064 – 1:2018”. Whilst the quantified life-cycle GHG emission savings are to be verified in line with Article 30 of Directive (EU) 2018/2001 (RED II) where applicable or by an independent third party.

We worry that the inclusion of three such methodologies set to serve the same aim will create confusion and reduce the comparability of emissions connected to hydrogen. At the very least the difference in these methodologies, pros and cons, justifying the need to include them all must be explicitly stated. However, a simpler and more robust approach for all actors reporting under the Taxonomy would be beneficial in order to ensure comparable results when counting emissions under point 3.9. This methodology, regardless of its form, must include all scopes of emissions as defined by the IPCC<sup>3</sup> (e.g. indirect emissions from electricity use or upstream emissions from fossil gas used in hydrogen production).

## **Carbon Capture and Storage: Safeguard that permanent storage forms the basis of any future inclusion of Carbon Capture and Utilisation (CCU) and Carbon Dioxide Removal (CDR)**

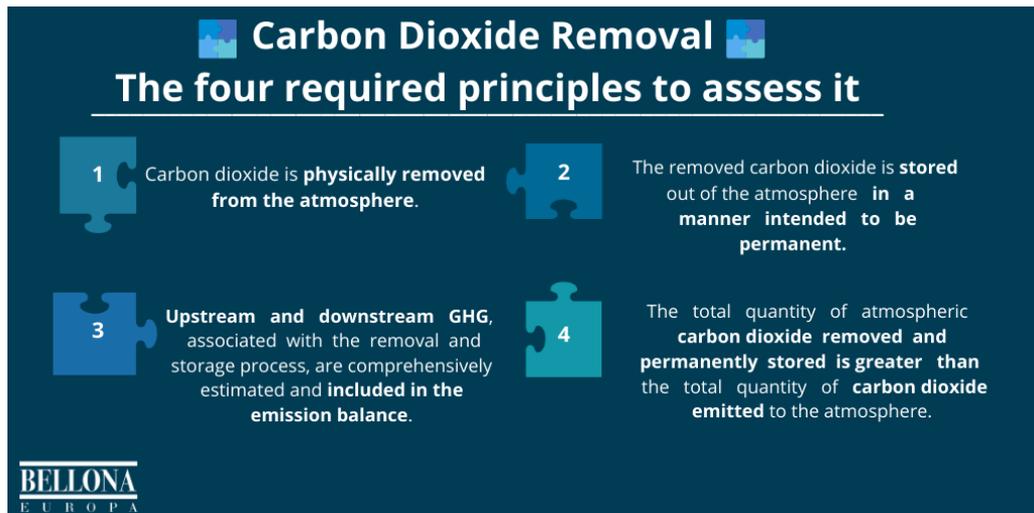
We appreciate the restructuring of the sections on CO<sub>2</sub> transport and storage, as well as the acknowledgement of the need to await further maturity and technological development of Direct air capture of CO<sub>2</sub> and Capture of Anthropogenic CO<sub>2</sub> before introducing it as stand-alone activities. To facilitate this development, we agree with the DAs inclusion of the Direct Air Capture (DAC) under the “Research, development and innovation” activity.

### **8. Urge EU leadership to ensure a science-based definition of Carbon Dioxide Removal (CDR) to be included in the future Taxonomy.**

As previously [outlined](#) by Bellona, the EU needs to take leadership in defining what Carbon Dioxide Removal (CDR) is and how it will contribute to the EU’s climate goals. Failing to do so will leave a gap for false solutions and dubious accounting, jeopardising the entirety of EU climate action. In the report [“Europe needs a definition of Carbon Dioxide Removal”](#) we provide the guiding principles for what such a definition should entail, and urge the European Commission to build on these recommendations in the future work on how best to include CDR technologies and practices into the Taxonomy. In the abovementioned report we identify 4 principles to ensure that any CDR process permanently removes more CO<sub>2</sub> from the atmosphere than it emits, provided in the illustration below for your reference. The permanence of the removal is the main element distinguishing real carbon removal from mere greenwashing.

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<sup>3</sup> [https://www.ipcc.ch/site/assets/uploads/2018/02/ipcc\\_wg3\\_ar5\\_annex-i.pdf](https://www.ipcc.ch/site/assets/uploads/2018/02/ipcc_wg3_ar5_annex-i.pdf)



**9. Exclude Carbon Capture and Utilisation (CCU) without guaranteed permanent storage**

Similarly, following the above argument of the importance placed on permanent storage, this must also be reflected in the future discussion of the Platform on Sustainable Finance on CCU. The TEG's clear exclusion of CCU has been removed, and we find it necessary to point out that although there are [methods](#) of permanently storing CO<sub>2</sub> by using CCU technologies, such as mineralisation, the usage of capture CO<sub>2</sub> in chemicals and fuels does not contribute to significantly lowering the level of CO<sub>2</sub> in the atmosphere. As one example, Synthetic fossil fuels produced by adding captured CO<sub>2</sub> to clean, renewable hydrogen is far too often wrongly branded as "renewable natural gas". Fossilising hydrogen to produce synthetic methane merely delays the CO<sub>2</sub> from being emitted.

The distinction between permanent (e.g. CCS and mineralisation) and temporary solutions must be made clear in the coming discussion on CCU's potential inclusion in the Taxonomy, and only permanent storage solutions should be made eligible under the Taxonomy.