TAXONOMY CDA: IMPLICATIONS ON FINANCIAL MARKETS AND THE ROLE OF FOSSIL GAS IN EU GREEN TRANSITION

The EU Taxonomy Complementary Delegated Act (CDA) sparked controversy amongst a range of stakeholders including financial market participants[1] by establishing that both unabated fossil gas and nuclear are sustainable economic activities. The fossil gas industry claims that the inclusion of unabated fossil gas in the Taxonomy is necessary due to energy security considerations, and that excluding it would leave the industry short of funding. These claims are drawn into question in a time where Europe's problematic reliance on fossil fuels has become clear, all while the fossil fuel industry is reporting record profits. The implications of marking unabated fossil gas as sustainable will in fact harm the development and deployment of renewables and low-carbon technologies- already at a comparative disadvantage. These are the very solutions to reduce Europe's problematic dependency on fossil fuels, and ensure Europe reaches its climate goals. How could the Taxonomy, the solution to issues of greenwashing in the financial sector, have become a tool to do just that: greenwash fossil gas? And how do we address the inherent misunderstandings of what the Taxonomy is? We call for a much-needed honest discussion on the purpose of the Taxonomy and the implications of it deviating from the aim on reaching Europe's climate targets.

// TAXONOMY 101: GOLD STANDARD TURNED GREENWASHING TOOL

The EU Taxonomy Regulation aims to provide a **common classification system for sustainable economic activities. Specifically,** by defining "the criteria for determining whether an economic activity qualifies as environmentally sustainable for the purposes of establishing the degree to which an investment is environmentally sustainable" [Article 1]. Providing financial market participants with the necessary information in order to direct capital towards sustainable projects and activities, if they are so inclined. Thereby helping the EU reach its long-term climate goals. **The Taxonomy does not actively divert investments**, nor tells anyone where to put their money. It simply provides a science-based classification tool identifying economic activities and projects that substantially contribute to emission reductions on the path to net-zero by 2050. The Taxonomy is meant to lower financial risks related to renewable and low-carbon technologies, still developing and in need of financing for large-scale deployment. Mature and established industries, such as fossil gas, do not require such additional investments. More importantly, unabated fossil gas does not substantially contribute to climate change mitigation. The latest months' development of **including unabated fossil gas as sustainable turns the Taxonomy into a tool for the very thing it is supposed to protect against: greenwashing.** At best, the CDA harms the Taxonomy's credibility in the market, risking it being little more than an administrative exercise as investors turns to other more credible classification tools fulfilling their needs. At worst, it forces actual sustainable solutions to compete with unabated fossil gas for sustainable investments.

THE TAXONOMY DEFINES:

CRITERIA TO DETERMINE IF AN ECONOMIC ACTIVITY IS ENVIRONMENTALLY SUSTAINABLE.

1 Amongst others, The Institutional Investors Group on Climate Change and Eurosif expressed concern.

// FOSSIL GAS: IN THE DRIVING SEAT

The fossil gas industry is a well-oiled machine with low risks and strong business prospects due to fossil gas' already established role in the energy transition. In fact, it has been identified as the only fossil fuel that is expected to grow beyond 2035. Amidst steadily increasing demand over the last decade, and the industry distributed record dividends in 2021, claims of future financial insecurity are baseless. With decades of experience, and developed distribution networks, fossil gas comes with considerably fewer risks to investors than many low-carbon solutions. There is no reason to believe that fossil gas will stop attracting investments if not greenwashed by the Taxonomy CDA. Any sustainable investment going to unabated fossil gas, however, is an investment that could and should have been going to low-carbon solutions reducing Europe's problematic dependency on fossil fuels.

Renewables and low-carbon solutions have a great potential to provide a way out of Europe's fossil gas dependency, and the Taxonomy is a chance to accelerate its development and deployment.

By creating exceptions for unabated fossil gas to the technology neutrality principle, low carbon solutions and renewables are put at a competitive disadvantage, competing with fossil gas for sustainable funding. This not only locks us in to further dependency on fossil fuels, it leaves truly sustainable solutions with real climate impact behind.

// RENEWABLES AND LOW-CARBON SOLUTIONS: LEFT BEHIND

Many renewable and low-carbon technologies and solutions are still in their market-infancy compared to fossil fuel-based competitors. Substantial funding is needed to further develop and widely deploy not only the technology itself but related infrastructure and enabling technologies (e.g., electrification and smart grids). Sustainable technologies need to reach economies of scale to bring the cost of the technologies down to a competitive level, lower than that of existing polluting energy producers, like unabated fossil gas. The task at hand can seem daunting, but with unabated fossil gas enjoying an equal sustainability label as renewable and low-carbon solutions, it becomes seemingly impossible.

By reinterpreting the Taxonomy Regulation to give way for concerns related to energy and financial insecurity, renewables and low carbon solutions are hindered in their attempt to become a secure and reliable energy source in the long run. At the same time, investment into unabated fossil gas may lock-in carbon intensive assets for a longer period than what would be necessary for the energy transition, jeopardizing Europe's climate goals. The Taxonomy CDA is digging us deeper down the hole of fossil fuel dependency, encouraging sunk costs into economic activities that does contribute to the necessary emission reduction on the path to net-zero.

It is in direct contrast to what the Taxonomy was supposed to be: a gold standard for sustainable investments, supporting the scale-up of funding and give innovative green solutions a fighting chance to replace polluting energy producers.

IF NO ACTION IS TAKEN THE TAXONOMY RISKS BECOMING A TOOL FOR GREENWASHING.

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