THE EU TAXONOMY CDA: PROPOSED CRITERIA FAIL TO SAFEGUARD CLIMATE IMPACT, INSTEAD INCREASE EMISSIONS AND EUROPE'S FOSSIL GAS DEPENDENCY

The EU Taxonomy Complementary Delegated Act (CDA) classifies unabated fossil gas as an environmentally sustainable activity. It is in breach of the technology neutrality principle which formed the basis of the European Commission's own Technical Expert Group (TEG) final report. In effect, the CDA replaces the substantial contribution to sustainability criteria with the do-no-significant-harm criteria (DNSH), and also introduces a brand new criteria based on a 20 year average. Several additional criteria are introduced in the CDA in an attempt to safeguard the objectives of the energy transition - while simultaneously painting fossil gas green. But these criteria are too weak, rely on promises of future action without warranty or verifiability, and fundamentally change the scope of the Taxonomy from sustainability contributions to matters of energy security. As a result, the CDA, if approved, would lead to further European lock-in to fossil gas – all under the guise of sustainability. It would hinder the acceleration of renewable deployment, create stranded assets and sunk costs. It also creates chronic inefficiencies in the long-term use of renewables.

As part of the Taxonomy CDA the European Commission proposes three new categories of economic activity including fossil gas: Activity 4.29 *"Electricity generation from fossil gaseous fuels"*, Activity 4.30 *"High-efficiency co-generation of heat/cool and power from fossil gaseous fuels"* and Activity 4.31 *"Production of heat/cool from fossil gaseous fuels in an efficient district heating and cooling system"*. Attached to each activity are criteria (further detailed below) meant to safeguard the climate impact of the proposed exceptions to the technology neutrality principle. Sadly, several of these criteria are wholly insufficient – and in fact increase Europe's dependency on fossil gas in the long-term.

// FOSSIL GAS-SPECIFIC EXEMPTIONS

> **CDA CRITERIA (I): DIRECT GHG EMISSIONS OF THE ACTIVITY ARE LOWER THAN 270g CO_2e/kWh OF THE OUTPUT ENERGY, OR ANNUAL DIRECT GHG EMISSIONS OF THE ACTIVITY DO NOT EXCEED AN AVERAGE OF 550kgCO_2e/kW OF THE FACILITY'S CAPACITY OVER 20 YEARS.**

The CDA weakens the technology neutral emission criterion for fossil gas, set in the Regulation at 100gCO_2e/kWh. It is now possible to choose between two additional criteria, either the threshold of 270gCO_2e/kWh for direct GHG emsisions of an economic activity's output, or of 550kgCO_2/kW average direct emissions without credible warrantees for meeting this threshold, nor strong accountability mechanisms in case of failure. Climate change is a time sensitive matter. By relying on good faith and hope alone that this average emission threshold will be met over the next 20 years, we risk irreversible damage to our climate. Not only has the emission threshold itself been

reduced, it disregards the lifecycle considerations set out in the Taxonomy Regulation. This allows for significant volumes of emissions to go unaccounted for, in particular emissions related to extraction, transport or fugitive emissions. As an example, methane leakage during extraction (e.g., fracking) would simply be disregarded as according to CBI's report on The Hidden Emissions from Gas-Fired Power. This is detrimental, bearing in mind that methane has 84 times the global warming potential[1] of carbon dioxide. We cannot afford to turn a blind eye to the full lifecycle of emissions.

// MANIPULATING THE OBJECTIVE TO LEGITIMISE WEAKENED CRITERIA

> **CDA CRITERIA (III): THE ACTIVITY REPLACES AN EXISTING HIGH EMITTING ELECTRICITY GENERATION ACTIVITY THAT USES SOLID OR LIQUID FOSSIL FUELS;**

To justify the fossil gas-specific exemptions, the European Commission heavily relies on arguments of energy security. Despite considerations related to energy security falling outside the scope and objective of the Taxonomy Regulation, it is increasingly incorporated into the Taxonomy through the CDA[2]. This becomes clear in light of Criterion (iii) that labels any activity sustainable that replaces existing high emitting activities. This criterion misses an important feature of the Taxonomy Regulation: it does not simply set out any contribution to emission reduction as sustainable, only **substantial contributions**. It is in determining what is a substantial contribution that the technology neutral Technical Screening Criteria (TSC) of 100gCO_2/kWh comes into play. To make matters worse, the greenwashing potential under Criterion (iii) is substantial. The EU is already planning to phase-out 25% of the EU's operational coal fleet by 2030, and without safeguarding criteria any construction of new fossil gas plant could under the CDA Criterion (iii) be said to replace coal-powered electricity generation. Unaccompanied by abatement technology the resulting emission reduction is simply too low. The CDA also fails to take into account the counterfactual case – where investments used for new fossil gas plants were in fact rather used on renewables. From the perspective of reducing climate change, a shift from coal to unabated fossil gas does not necessarily constitute a substantal reduction in emissions. To ensure that the Taxonomy is not used as a toll to greenwash, it must be made clear that the high-emitter in question was not planned substituted by other low-carbon energy sources ahead of the introduction of the Taxonomy CDA. To ensure that the investment in question does contribute to real climate change mitigation it must be accompanid by significant safeguards and a clear justification why direct replacement by renewables are not possible. No such safeguards are included in the Taxonomy CDA at this time.

// THE MYTH OF HYDROGEN-READINESS: LEAD TO SUSTAINED EFFICIENCY LOSSES

> **CDA CRITERIA (V): THE FACILITY IS DESIGNED AND CONSTRUCTED TO USE RENEWABLE AND/OR LOW-CARBON GASEOUS FUELS AND THE SWITCH TO FULL USE OF RENEWABLE AND/OR LOW-CARBON GASEOUS FUELS TAKE PLACE BY 31 DECEMBER 2035, WITH A COMMITMENT AND VERIFIABLE PLAN APPROVED BY THE MANAGEMENT BOARD OF THE UNDERTAKING.**

The proposed CDA makes it possible for fossil gas power plants to claim net-zero compliance today if they plan to make a full shift to renewable or low-carbon gases by 2035.

There are no mechanisms to ensure that the planned shift takes place in Criteria (v). And the related verification processes of such plans are seemingly left to the companies themselves. This is a clear conflict of interest. The lack of any claw-back mechanisms, should the shift not take place, leaves investors in the dark. As Bellona Europa has highlighted several times: hydrogen-ready does not mean that a shift to hydrogen will in fact take place. As learnt by the examples of CCS-Readiness, only requirements for, and not simple compatibility with, will ensure

1 GWP20

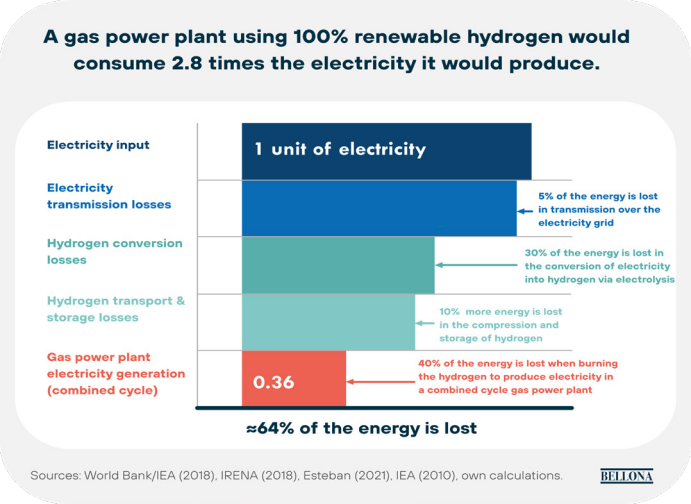
2 For more information on legal aspects and failed legitimacy of the fossil gas industry's claims of energy security, refer to the explainers of Event 1 and 2 of the Taxonomy event series

that a shift takes place. Taking into consideration the unlikelihood of this shift to hydrogen taking place—due to inefficiencies and high-costs—the Taxonomy CDA is all the more likely to delay the energy transition in the EU rather than to accelerate it, locking Europe further into fossil gas.

The reliance on such a shift, however, if it were to materialize, would result in substantial efficiency losses. The Taxonomy CDA risks unabated fossil gas plants becoming black holes for renewable energy, that could be more efficiently used elsewhere. And a money drain for costly produced low-carbon gases for electricity generation, investments which would be more efficiently spent on developing much-needed renewables.

In particular, fossil gas investments under the Taxonomy CDA today are likely to divert renewable gases, such as hydrogen, from where they are most needed: industry and harder-to-abate sectors. These gases would be diverted to fulfil the promised shifts under the Taxonomy CDA by 2035 for electricity, heat and power generation. This would cannibalize vast amounts of renewable electricity better used directly than replacing fossil electricity generation via renewable gases. It would be wholly inefficient, seeing as a Taxonomy compliant power plant using 100% renewable energy would use 2.8 times the electricity it would produce. An absurd efficiency loss that neither society nor the climate can afford.

Criterion (v) is further weakened by a lack of definitions for renewable and low-carbon gasses, enabling self-interpretation and opening the door wide for greenwashing. There is an urgent need for definitions for renewable and low-carbon gases to avoid encouraging a race to the bottom fuelled by unclear terms and concepts.



// TWO SCENARIOS EMERGE: BOTH A FAR CRY FROM NET-ZERO

If approved, the leaked proposal would use a promised, but indeed improbable and inefficient, future fuel shift as a justification to greenwash unabated fossil gas investments today. Two scenarios emerge, both a far cry from Net-zero by 2050. If the fuel shift materializes, it would result in huge wasted amounts of renewable electricity. If the shift does not materialize, which is indeed likely due to the inefficiencies described, unabated fossil gas will continue to increase the concentration of CO2 in the atmosphere – all under the guise of sustainability.

In reality, loosening the criteria for unabated fossil gas with no scientific basis of contribution to climate change mitigation nor proper accountability, will only deepen our reliance on fossil fuels. It will further delay European renewable energy deployment - in direct contrast with the RePowerEU. The RePowerEU Communication outlines the Commission's strategy to decrease Europe's dependency on fossil gas by accelerating deployment of renewable and low carbon technologies. Classifying investments into fossil gas as sustainable ensures that unabated fossil gas power plants and related new infrastructure operate well into the next decade. It is not only an opportunity cost, causing lock-in and delays we cannot afford, in the long-run reduced energy prices brought on by planned mainstream deployment of renewable technologies, and continuous more ambitious EU Climate Policy, will make these investments prematurely unprofitable and thereby create sunk costs for society and the economy.

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