

## Consultation on the “Report on Taxonomy extension options linked to environmental objectives” from the Platform on Sustainable Finance

August 2021

EUGINE and EUTurbines, the associations representing the manufacturers of gas power generation and cogeneration equipment, appreciate the possibility to comment on the Report on Taxonomy extension options linked to environmental objectives, published by the Platform on Sustainable Finance in July 2021.

Gas power and cogeneration plants are in the focus of the ongoing discussions connected to the climate Delegated Act, especially in the context of transitional activities. What is more, the report refers to gas power plants as an example for a potential case of what it calls “Intermediate Transition”.

EUGINE and EUTurbines believe that the approach suggested in the report is not suitable as it moves away from the purpose of the EU Taxonomy Regulation. This can particularly be seen in the suggested concept of an “Intermediate Transition”, which does not follow the approach outlined in the Regulation’s Article 10(2).

Unfortunately, most questions in the published consultation document only allow replies that follow the argumentation of the report as proposed by the Platform on Sustainable Finance. Given that this does not allow a disagreement with the basic direction taken by the platform, we have decided to add this paper to our reply.

### Purpose of the Taxonomy – Supporting the financing of green activities

As stated in the report “*The purpose of the Taxonomy is to increase financial flows towards ‘green’ activities and avoid green-washing by setting science/evidence-based criteria for different categories of performance*” (p.5). This clearly underlines that the Taxonomy is neither an instrument to categorise all economic activities nor a baseline meant to be used as reference for purposes other than directing financial flows towards environmentally sustainable activities.

There is however a tendency of using the (not even finalised) EU Taxonomy provisions – including “Do Not Significantly Harm” (DNSH) criteria set in a delegated act – as a general sustainability benchmark, going beyond the scope set in Regulation 2020/852 Art. 1. This can, for example, be seen in the draft for the revision of the Energy Efficiency Directive.

A further extension of the Taxonomy, identifying not only “green” activities but also creating classes for “intermediate” and “significant harm” activities, would not only not help financial market participants or issuers identify “green” investments but result in a “universal classification” of good and bad activities that is not fit for purpose.

We therefore urge the Platform to limit its proposals to the intended purpose of the Taxonomy and to better recognise and assess the potential consequences it can have on economic sectors and on European industry.

### **Significantly Harmful Activities – The inadequate use of the DNSH criteria**

The DNSH criteria in the Taxonomy Delegated Act were introduced as a safeguard to ensure that an activity that significantly contributes to achieving one of the six objectives does not go against any of the other objectives. It was not discussed for it to be a second-level threshold. Therefore, the conclusion of the report “*The Platform therefore concludes that failing Do No Significant Harm (DNSH) criteria is technically equivalent to causing SH.*” (page 21) is not adequate. A detailed assessment of the related requirements and criteria – including the overall contribution of activities to the transition – would need to be conducted before drawing such conclusions.

### **Transition activities – A concept not matching the definition of the regulation**

Art. 10(2) of the Taxonomy Regulation defines “transition activities” as activities supporting “the transition to a climate-neutral economy consistent with a pathway to limit the temperature increase to 1,5 °C” and which have GHG emission levels that correspond to the best performance in the sector or industry, which do not hamper the development and deployment of low-carbon alternatives, and which do not lead to a lock-in of carbon-intensive assets.

The Platform report, however, only talks about the transition of specific economic activities from one sustainability level to another (in terms of CO<sub>2</sub> emissions, for example) and disregards the indirect benefit that an activity can provide to increase the overall sustainability (contributing to the energy transition).

Currently, the operation of a gas power plant with natural gas exceeds the threshold for a sustainable contribution (SC) and, therefore, is not a sustainable activity itself. However, if the operation allows the replacement of a coal power plant – immediately avoiding half of the GHG emissions –, this activity should be considered a “transitional activity” as long as no other solution is available at that moment and the other criteria of Art. 10(2) are met.

The “Intermediate Transition” and related performance levels concept suggested by the report falls short of delivering the overall ambition of the Taxonomy Regulation. Its narrow focus on the activity itself instead of on the contribution to an overall sustainable economy is therefore not in line with the regulation and should not be pursued.

### **The misleading example of “production of electricity from gas”**

On page 30, the report uses the operating of a gas power plant as an example to illustrate the idea of an “intermediate transition” activity. Already in the climate Delegated Act, it is wrongly assumed that gas power and cogeneration plants are connected to one specific type of gas – either natural gas or renewable climate-neutral gases. This binary approach is

wrong and misleading: the same plant may be operated with different gas compositions, from natural gas or renewable climate-neutral gases, such as hydrogen.

A plant using natural gas – even if the emissions may exceed the general SC threshold – can support the transition to a sustainable economy by not only enabling a fast transition away from coal but also by providing a flexible dispatchable backup to variable renewables. In other words, gas power plants are a key technology to help support and deploy variable renewables in a reliable and stable manner. In addition, even if the plants may use natural gas in the beginning, they will be able to switch to renewable gas or low-carbon hydrogen once it becomes available – thus ensuring that there is no lock-in effect.

The concept for “Intermediate Transition” activities suggested in the report ignores the important contribution of gas power generation and cogeneration in the future energy system and does not properly consider the fact that the same activity may be categorised differently, depending on the fuel used throughout the transition. Similarly, the ability of a power plant to switch to renewable gases – making the activity fully sustainable – should be better recognised as an adequate option that significantly contributes to delivering a climate-neutral economy. Such aspects should be kept in mind in the implementation and use of the Taxonomy in the future.

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*About EUGINE and EUTurbines:*

**EUGINE** is the voice of Europe’s engine power plant industry. Our members are the leading European manufacturers of engine power plants and their key components. Engine power plants are a flexible, efficient, reliable and sustainable technology, helping to ensure security of electricity supply and providing (renewable) electricity and heat. For more information please see [www.eugine.eu](http://www.eugine.eu)

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