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Directorate-General for Financial Stability, Financial Services and Capital Markets Union
European Commission
1049 Bruxelles/Brussel
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(uploaded onto the Better Regulation portal)

Brussels, 16th December 2020

Dear Sir/Madam,

ShareAction, the responsible investment advocacy group, welcomes the opportunity to provide input to the **draft Delegated Acts** presented by the European Commission on an EU classification system for green investment (EU Taxonomy), in particular on the Technical Screening Criteria for the climate change mitigation and climate change adaption.

The EU Taxonomy has been hailed globally as a milestone in creating the much-needed tools for financing the transition to a low-carbon economy. For this tool to effectively facilitate reaching the EU emission reduction targets and commitments under the European Climate Law to meet climate-neutrality by 2050, **it needs to fully endorse the ambition of the Technical Expert Group's (TEG) recommendations**, if not going even further.

This is essential in terms of the level of ambition, and not doing so would jeopardise trust in the whole process and create a dangerous precedent.

Thus, we would like to share our concerns about the **key areas where we feel the Taxonomy is moving away from the TEG's advice and share recommendations to ensure it remains science-based**:

Exclusion of fossil fuels

The proposed climate change mitigation criteria for electricity generation in the draft Delegated Act (i.e. **100g CO2/kWh) should be maintained** (Annex I, section 4.7). This effectively excludes natural gas without abatement (CCSU) as a taxonomy eligible activity.

Furthermore, we would expect to see a **gradual tightening of said threshold** in the upcoming review phases or ideally one that automatically declines over time – compliant with the TEG recommendations.

We urge the Commission to **clarify and strengthen the climate adaptation criteria impact safeguards** to prevent creative interpretations of the adaptation criteria potentially leading to investments **prolonging the lifespan of high-emitting activities**, ultimately hampering the objective of the Taxonomy.

Bioenergy, biofuels and biogas for transport

We find the inclusion of all forest biomass (wood sourced directly from forests) burned as feedstocks, as well as activities compliant with the Renewable Energy Directive, including the use of dedicated cropland, highly problematic[1]. This goes against the Commission's impact assessment on bioenergy, that found that demand for forest biomass is actually hindering EU forests' ability to act as a carbon sink and thus mitigate climate change. We therefore call on the Commission **to exclude the burning of all forest biomass for energy** from the Taxonomy as well as **reverse the inclusion of all bioenergy feedstocks with higher full lifecycle emissions** compared to fossil fuels, including purpose-grown crops.

In our report *The Biomass Blindspot* we have shown how biomass hinders Paris goals, damages forest carbon stocks, centres around a flawed assumption of carbon neutrality, and challenged the assumption that carbon is recaptured by forest regrowth at the rates required to offset emissions from combustion.

Hydrogen

We welcome the improved emissions threshold included in the draft DA. We also recommend **explicitly excluding hydrogen produced with fossil** and/or non-renewable power from the Taxonomy.

Hydrogen emissions must **also account for upstream emissions to prevent so-called 'blue hydrogen' (with CCS) from being treated equally to green hydrogen**. Failing to do so could be misleading as due to upstream emissions blue hydrogen will always be more emission-intensive and not a net-zero fuel. If 'blue hydrogen' is to be included, it should have a low – and ideally declining – emissions threshold, that accounts for upstream emissions.

Forestry

As the Taxonomy rests on the notion of sustainable forest management, we see the inclusion of activities such as short-term rotation below 20 years as highly problematic. These activities are in fact **not climate neutral due to the carbon released and neglect carbon storage below ground**.[2] The Commission **should thus incorporate the recommended list of activities by the TEG in Annex F2**.

Livestock

As similarly stated above, **we do not think there are sufficient grounds for the inclusion of livestock in the taxonomy** until the necessary criteria are developed to assess its

[1] This was also highlighted by participants in our study *Decarbonising Heavy Industry – A financial sector perspective on the decarbonisation of steel, cement and plastics*. ShareAction, October 2020 p.60

[2] See P.12 of our investor report *The Biomass Blind Spot*. ShareAction, February 2019

impacts on climate (difficulties in assessing effective greenhouse gas emissions in a highly carbon-intensive industry), biodiversity and land use.

We also recommend the Commission to reconsider whether the draft DA is giving excessive focus to technical solutions such as changes in feed rather than to reducing herd size.

Water transport
We were disappointed to read of the inclusion of a new economic activity, namely *sea and coastal water transport*, without following the established practice of consulting with experts and stakeholders through the appropriate expert groups as has been the case with the TEG. **Its inclusion in the Taxonomy should thus be conditional on the examination by the Platform on Sustainable Finance**. Our concerns with the inclusion of this economic activity are not merely procedural, but also relate to the low Energy Efficiency standards (EEDI) required to comply with. By selecting thresholds that are almost in line with regulatory requirements for a highly polluting industry, the DA as it stands would risk bringing most ships into the scope of the Taxonomy.

Incineration

Another discrepancy between the TEG's recommendation and the draft DAs concerns **the non-exclusion of burning refuse-derived fuel (RDF) in cement plants**[3]. In fact, the TEG held that "co-incineration of RDF has significant impacts on health and environment due to the polluting nature of the associated emissions and may undermine waste minimisation efforts." We thus call on the Commission to address this by adopting the TEG's recommendation.[4]

Otherwise, we fully **support the exclusion of waste incineration** – as put forth in the draft DA.

Hydropower
In the case of the inclusion of hydropower we call for consistency with the TEG recommendation that "**construction of small hydropower (<10MW) should be avoided**" considering the severe impacts it has on freshwater biodiversity vis-à-vis their negligible contribution to meeting climate objectives, thus hampering the Do-No-Significant Harm principle.

[3] See p.59-60 of our *Decarbonising Heavy Industry – A financial sector perspective on the decarbonisation of steel, cement and plastics* report. October 2020
[4] Also see our investor briefing *Decarbonising Cement: The Role of Institutional Investors*. ShareAction, October 2019

We finally commend the Commission for clarifying in the draft DA whether each activity is considered as ‘low carbon’ in its own performance (43%), ‘transitional’ (30%), or ‘enabling’ (27%) thus going beyond what the TEG recommended. At ShareAction we believe this to be a useful tool for investors to actively engage with companies in the process of restructuring their business models to align with the Paris Agreement and the European Climate Law.

We however feel that the draft DA leaves too much choice to taxonomy users on the methodologies they want to employ to account Greenhouse Gas emissions, thus potentially affecting comparability, consistency and reliability of that data. This is particularly relevant in the context of ever-increasing Net Zero commitments, which will require greater standardisation so as to have sectoral baselines for comparison for corporates, policymakers and investor to monitor progress.

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About ShareAction
ShareAction is a non-profit working to build a global investment sector which is responsible for its impacts on people and planet. We mobilise investors to take action to improve labour standards, tackle the climate crisis, and address pressing global health issues, such as childhood obesity.

Over the last 15 years, ShareAction has used its powerful toolkit of research, corporate campaigns, policy advocacy and public mobilisation to drive responsibility into the heart of mainstream investment.

We want a future where all finance powers social progress.

EU-advocacy
ShareAction's EU policy engagement focuses on supporting the development of an effective regulatory framework of sustainable finance and long-term investment that ensures the interests of end-investors are heard and the financial sector helps deliver on ambitious environmental and social goals.

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