Taxonomy Regulation Compromise Amendments

Eurelectric comments

March 2019

Eurelectric represents the interests of the electricity industry in Europe. Our work covers all major issues affecting our sector. Our members represent the electricity industry in over 30 European countries.

We cover the entire industry from electricity generation and markets to distribution networks and customer issues. We also have affiliates active on several other continents and business associates from a wide variety of sectors with a direct interest in the electricity industry.

We stand for

The vision of the European power sector is to enable and sustain:
- A vibrant competitive European economy, reliably powered by clean, carbon-neutral energy
- A smart, energy efficient and truly sustainable society for all citizens of Europe

We are committed to lead a cost-effective energy transition by:

investing in clean power generation and transition-enabling solutions, to reduce emissions and actively pursue efforts to become carbon-neutral well before mid-century, taking into account different starting points and commercial availability of key transition technologies;

transforming the energy system to make it more responsive, resilient and efficient. This includes increased use of renewable energy, digitalisation, demand side response and reinforcement of grids so they can function as platforms and enablers for customers, cities and communities;

accelerating the energy transition in other economic sectors by offering competitive electricity as a transformation tool for transport, heating and industry;

embedding sustainability in all parts of our value chain and take measures to support the transformation of existing assets towards a zero carbon society;

innovating to discover the cutting-edge business models and develop the breakthrough technologies that are indispensable to allow our industry to lead this transition.

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WG Social Sustainability

WG Financial Regulation

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Eurelectric Comments on the Taxonomy Regulation Compromise Amendments

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The European electricity sector welcomed the Commission's proposal for Sustainable Finance as it provides a solid basis for providing a climate friendly investment framework. Sustainable finance is the way to reconcile a better development with a better finance. In this framework, climate change is indisputably a priority when addressing long-term sustainable development issues. To achieve sustainable finance, we believe that a technology-neutral approach to taxonomy should be adopted in order to achieve the carbon neutrality objective. Finance should indeed work to catalyse long-term innovation and enable immediate deployment of the best available solutions for the decarbonisation, electrification and digitalisation of the economy.

The European power sector represented by Eurelectric is already widely investing into transition enabling and innovative solutions to achieve carbon-neutral electricity supply well-before 2050, which can enable deep decarbonisation of the EU economy through electrification. Sustainable finance is an important tool, which can help channel private finance towards the relevant power sector investments to achieve these objectives.

The proposed EU taxonomy must enable and accelerate investments and innovation in all transition enabling technologies and related business models, whilst ensuring security of supply and competitively priced electricity for consumers in a socially responsible manner. Eurelectric therefore recommends a flexible and technology-neutral system with a view to achieve carbon neutrality rather than an inclusion/exclusion list. Finally, Eurelectric generally finds it problematic that political decisions are left to be clarified in secondary legislation with numerous powers given to the European Commission.

In order for the Sustainable Finance to become a driver for market-based low-carbon generation investments and to ensure a cost-effective energy transition, we believe that a number of proposals should be supported by the European Parliament. Against this background our detailed views on the proposed compromise amendments are set below with the aim of ensuring that they can facilitate the achievement of an ambitious yet balanced final agreement.

General remarks on the scope of the Taxonomy Regulation - COMP A; Article 1-+ COMP D; Article 4 + COMP DA; Article 4a

The Commission's proposal aims at determining whether an economic activity to be financed can be considered as environmentally sustainable with a view to enable this kind of investment. Extensive disclosure obligations included in the Compromise Amendments – notably article 1§2 (ba); article 4§3 – lead to the conclusion that all kinds of economic activities of a given company are taken into account by the Parliament for sustainability assessment.

In view of mastering the challenges of the ongoing energy transition, we support an activity-based approach as otherwise it becomes almost impossible for entire companies to meet the sustainability criteria even when they set up an economically sustainable project. The resulting disruption to the energy system could lead to a significant increase in cost of money for projects, which would not qualify as sustainable due to company's existing asset portfolio. This could lead to a risk of higher energy prices for customers. Therefore we ask for an adequate clarification in Article 1.

Additionally, financial market participants are required to assess and disclose information on the sustainable or significant negative environmental impact of all their investments through the use of third parties. This approach is not proportionate since it would create a severe burden for financial market participants. It is not appropriate to create new extraneous obligations in financial market regulation to the detriment of market participants. These could lead to an additional economic burden for companies in transition to a more sustainable business model.

Eurelectric supports the application of the Regulation to financial products labelled as sustainable in order to facilitate investment in them. However, we strongly reject an extension to all financial products and services as well as to other policy areas.

An extension of the scope could lead to a considerable increase in the burden of reporting obligations and negatively affect the raising of capital affecting companies in the transition to a sustainable business model.

Definitions – Article 2

The pollution of water has already been regulated in the paragraph - Art. 2 (1) (h) (i). An additional reference of the term to the Water Framework Directive (WFD) can lead to duplication in the interpretation of terms. When defining water pollution, reference is made to specific legislation in this area (Marine Strategy Framework Directive, WFD), but no such references are made for air and land.

In Article 2 (1) (j) important components of the energy system such as pumped storage facilities, battery storage facilities and the network infrastructure would not be classified as energy-efficient in the terms of the Taxonomy Regulation. For all forms of storage, the energy input is always higher than the output (due to conversion losses). However, storage facilities store surplus electricity (from renewable energies) with the aim of short-duration to long-duration storage and thus enable more efficient use of energy along the entire energy supply chain from generation to final consumption in accordance with Article 2 (1) (j) first sentence.

The implications for forest based biomass could be significant depending on interpretation of Art. 2(1)(n) where "and restores" is added to the original text. This could mean that managed forests should be restored to a natural state which in reality would mean the end of managed forest with devastating consequences for publicly and privately-owned forests in all member states.

Eurelectric therefore argues for “and restores” to be changed to “or restores” in line with the recently adopted RED II.

Brown-listing COMP CA Article 3a

The proposal from the European Commission has one objective: facilitating investments in “green” technology. This does not mean that other activities should be automatically brown-listed: de facto considered as harmful for the environment.

The creation of a brown list in combination with an extension of the Regulation’s scope (assessment of all economic activities of a company) will have a profound impact on companies transitioning to a low carbon-based business models while economic activities with current negative impacts have the biggest potential for improvement regarding the standardised environmental objectives. A black or brown listing would not only counteract the cost effectiveness of making necessary investments by those companies but also the necessary retrofit of existing assets to improve their environmental impact.

Consequently, this will undermine the cost-effective achievement of the EU’s climate and energy goals. This effect will be especially exacerbated in Member States with lower levels of GDP per capita. In addition, it could undermine energy security and leading to higher prices, and by extension less acceptance for the transition. Furthermore, there is no impact assessment for the brownlists regarding social issues and job losses in particular.

This is why Eurelectric advocates strongly against a possible brown or blacklisting in order to avoid undermining the overarching objective of the regulation, namely the mobilization of capital to facilitate the achievement of the EU’s climate and energy goals. The introduction of a brown list would make the transition of companies towards carbon neutrality more difficult. We believe it is highly counterproductive to introduce such a prudential set of criteria within this framework.

Additionally, we agree that the idea of the Taxonomy Regulation should consider the technology’s potential for decarbonizing energy.

Criteria for environmentally sustainable economic activities - COMP C; Article 3

The European Commission specifies that an economic activity cannot be considered as sustainable if it significantly harms any of the six environmental objectives. According to COMP C article 3 (b), economic activities could not be classified as sustainable if they significantly contribute to the environmental goals but have a negative impact, even minor on the environmental objective laid out in article 5, paragraph 1 (6): protection of biodiversity and healthy ecosystems, and restoration of degraded ecosystems. In practice, this compromise would make it impossible to define any renewable energy generation technology as sustainable. We therefore urge for the principle of proportionality to be respected. We recommend addressing the different goals equally as the Commission foresees in the initial proposal.

Social aspects

We agree that the social dimension should be part of the ongoing debate. Indeed, it will be increasingly difficult to tackle environmental challenges if the social dimension is not taken into account. The Taxonomy Regulation should be flexible enough to embed all dimensions of the sustainability, i.e the social, the economic and then environmental ones.

However, this social dimension should be approached prudently in view of the feasibility and administrative burden for companies. Social dimension should be shifted for the future thorough assessment and not to be mixed with technical criteria at this stage.

Today most of the energy utilities have integrated in their respective strategies, reporting and way of communication the already defined frameworks like SDGs, the 2030 Agenda/ Action Plan, as well as the ESG. The aim for the upcoming Regulation should be to take those frameworks on board. In particular, ESG -Environmental, Social and Governance- can be the set of criteria to be adopted, where interlink between the three dimensions can be seamlessly integrated.

We consider that the extension of taxonomy to social issues should ultimately be a medium-term objective, priority being given to environmental and climate aspects. Otherwise the extension requiring a lot of work, the risk of delaying the implementation of the taxonomy would be very high. However, in order to maintain a global approach to sustainable development, we are in favour of strengthening the base of minimum social criteria, by referring to the international texts in force. This is also reflected in the last Compromise Amendment and particularly in Annex 1 of the Compromise Amendment on the international frameworks that shall be considered for the purpose of Article 13 like, for example, the eight fundamental conventions identified in the International Labour Organisation's declaration on Fundamental Rights and Principles at Work

Substantial contribution to climate change mitigation - COMP F, Article 6

Support for carbon-neutral approach

A successful energy system transformation requires affordable prices and a high level of local social acceptance. To this end, existing technologies must be used optimally and space must be created for new technologies. Focusing solely on renewable energies would reduce potential and hamper innovation in climate-neutral and low-carbon technologies. Climate-neutral and low-carbon technologies for generation, storage, distribution or use of any type of energy, including in the mobility sector make an important contribution to achieving climate targets affordability and acceptance. This substantial contribution should be fully reflected in the Regulation with the aim to unlock the deployment of these technologies.

The exclusive reference to the Renewable Energy Directive (EU 2018/2001) in Article 6(1)(a) is insufficient regarding storage technologies. In view of establishing a fair level playing field all storage technologies, including hydro pumped storage facilities, should be treated on an equal footing.

A removal of the reference to 'climate-neutral energy (including carbon-neutral energy)' in paragraph 1(a) goes against the goals of reducing CO2 emissions and favours a certain technology while the principle of technological neutrality should be respected. Low-carbon energy will have an important role to play in the context of climate change mitigation, it is thus critically important to take into account low-carbon energy within the taxonomy framework, and not to restrict it only to renewable energy. It is therefore essential to mention 'low-carbon energy' in Article 6 (1) (a) and (1) (h) under the "climate change mitigation criteria".

Need to assess and reward energy savings and efficiency improvements of energy-related activities

In view of the future transformation of the energy system (e.g. power to gas, hydrogen), energy savings and efficiency improvements in the thermal sector (gas) should also be considered as a significant contribution to climate change mitigation (Article 6(1)(b)). Efficiency measures in

thermal power plants have a positive effect on the emissions balance. Therefore it would be counterproductive not to support investments in this area. Classification as a substantial contribution to climate change mitigation would be an important signal for investments in low emission components of the energy mix that are crucial for a transition period, such as high-efficiency cogeneration (CHP).

Reaching the 2°C, let alone the 1.5° C target will require significant reduction of emissions, including a need for developing technologies enabling negative emissions. The technology to capture CO2 emissions is needed and the taxonomy should recognize the importance of Carbon capture and storage/utilisation both for industrial emissions and for power generation.

Significant harm to environmental objectives – COMP L; Article 12

When defining economic activities considered as "causing significant harm to the environment", a scientific-based, and technology-neutral approach should prevail. This approach is not respected since various technologies, including "non-renewable energies", are specifically mentioned as activities that can 'lead to significant inefficiencies in the use of materials', thereby harming one of the environmental objectives. Low-carbon energies play a key role in the decarbonisation of the economy, – as recognised and emphasised by the IEA or the IPCC. It is therefore worrying to mention specifically any non-renewable energy as "harmful".

In the same way, we are concerned about the exclusion of "power generation activities that produce non-renewable waste" considered de facto, and without any scientific approach, "to have significant negative environmental impact" when defining the requirements for the technical screening criteria (Article 14).

Hydropower is a key technology in contributing to the decarbonisation of the European electricity system and achieving the emission reductions needed to reach the urgent 1.5 degree target. Hydropower should be considered sustainable when it is in line with the water framework directive and the taxonomy should not invent additional requirements on top of the already existing legislation.

Requirements for technical screening criteria – COMP N and X; article 14

By stating that the criteria should be based on a whole life cycle assessment throughout the document, this would also apply to the principle of 'non-renewable waste'. This means that any technology producing a non-renewable waste throughout it life cycle would be excluded – all of the energy sources (including wind and solar) generate non-renewable waste at some point (eg. end of life).

According to the IPCC the use of nuclear power is needed to keep global warming below 1.5 degrees. Currently nuclear generates 27% of the EU's electricity and represents 50% of the carbon-free production. The European Commission in its proposed long term vision "A Clean Planet for all A European strategic long-term vision for a prosperous, modern, competitive and climate neutral economy" assumes a share of nuclear energy production of 15% in the energy mix of the EU in 2050 and underlines the role which nuclear energy can play in lessening the dependency on energy generated from fossil fuels.

Eurelectric pursues in all its activities the application of the following sustainable development values:

Economic Development

- Growth, added-value, efficiency

Environmental Leadership

- Commitment, innovation, pro-activeness

Social Responsibility

- Transparency, ethics, accountability

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