

Finnish Industries' views on the EU Sustainable Finance Taxonomy Framework

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Union (DG FISMA)
Unit B2 – Sustainable Finance

Public Consultation:

Commission Delegated Regulation on a climate change mitigation and adaptation Taxonomy

1 EK supports the Taxonomy – certain aspects need to be adjusted

EK remains a strong supporter of the Taxonomy framework. There is a need raising from the market participants to create a classification system known as a “taxonomy” according to which investors and businesses can assess whether certain economic activities are “sustainable”. We fully respect the starting point that the Taxonomy should be build according science-based and technology-neutral approach.

Taxonomy should be a channel which enables a well-managed transition towards carbon-neutral economy. EK strongly supports the European Commission’s goal of climate neutral Europe by 2050. In addition, Finland has pledged to become carbon neutral already in 2035 which we fully agree with.

The draft delegated regulation which the Commission is consulting on contains the technical screening criteria (TSC) setting out the conditions under which a whole host of economic activities qualify as contributing substantially to climate change mitigation or adaptation, and for determining whether those economic activities do no significant harm to one or more of the other environmental objectives in the Taxonomy Regulation.

EK has several major reservations regarding the proposed formulation of the TSC under the draft delegated regulation

The proposed TSC framework is not technology-neutral in all aspects and does not fully respect the principle of science-based approach. It may jeopardise the carbon-neutral investments needed in order to Europe to meet the climate goals. The proposed framework is overlapping with existing EU sectoral environmental legislation and

thus creating uncertainty regarding carbon-neutrality investments. It needs to be fully recognised and acknowledged openly that the Taxonomy framework is not “just one exercise among the others” but it will have a broader implications to the finance conditions of the European companies since some major public sources of finance will be linked to the TSC framework. Especially, this applies financing of R&D and pilot projects.¹ It is undisputable fact that the private sector will largely be responsible for delivering the required technologies, solutions, products and innovations needed to achieve such far-reaching goals as the EU climate targets.

2 How the proposed TSC framework needs to be corrected?

Concrete examples from:

a) Energy sector

Nuclear power

Nuclear power is necessary in order to reach European climate targets and an essential part of climate neutral energy system. Excluding nuclear from taxonomy at this stage would create unfair playing field that hampers competition as some technologies have access to sustainable financing earlier than others. This also risks undermining the ability of the Member States to develop a pathway towards climate neutrality, taking advantage of all the carbon-neutral options available.

Primarily we ask the whole delegated Act to be published after the assessment of nuclear power is completed and nuclear power is included in this act. Should this not happen we ask this recital to be amended: for nuclear energy, that assessment is still ongoing. and the Commission will report on its results in the context of the review of this Regulation. In the event that the JRC work on nuclear results in nuclear being considered as sustainable, the Delegated Act will be amended within 2 months to include nuclear. In addition, all Taxonomy compliant regulation should be updated accordingly. (Recital 16)

Hydropower

Hydropower has important role in the energy system also in the future, and is needed to balance growing amount of variable renewable energy (VRE) such as wind and solar power. Hydropower, a flexible and renewable energy source, provides flexibility for short-term adjustments as well as long-term storage possibilities.

¹ For example, the European Investment Bank (EIB) has announced that it will amend its funding criteria taxonomy-aligned. Other examples may be found from the regime of the EU Green Bond Standard and many national public funding sources aimed, for example, for R&D.

All the technologies that are well below the threshold of 100 gCO₂eq/kWh should be treated equally and hydropower should be exempted from the life-cycle assessment.

The Do no significant harm ('DNSH') criteria for hydropower, especially those for "Sustainable use and protection of water and marine resources" should refer to existing European Union environmental legislation, such as Water Framework Directive.

Accordingly, hydropower should be added to Section 7.6. Installation, maintenance and repair of renewable energy technologies.

Hydrogen manufacturing

The sustainability criteria for manufacture of hydrogen should be set in accordance with the TEG final report thus resulting in limit of 5.8 tCO₂/eqH₂.

Gaseous and liquid fuels

Threshold on life cycle GHG emissions for gaseous and liquid fuels should be based on roadmap that works as an incentive for the gas sector's decarbonisation.

Transmission and distribution of electricity

All electricity transmission and distribution infrastructure or equipment shall be eligible with except for infrastructure that is dedicated to creating a direct connection, or expanding an existing direct connection between transmission or distribution system and a power production plant that is not eligible. Criterion 2. on calculation of CO₂ values shall not be mandatory to fulfil in order of being eligible.

Storage of electricity

All electricity storage technologies, including reservoir storage and pumped hydropower, should also be categorised as economic activities making a substantial contribution based on their own performance, and not only as enabling activities. All dedicated electricity storage technologies should be listed in 4.10. including respective specifications in the DNSH criteria.

b) Bioenergy; biofuels, RED II

In the draft Act Annex I on climate change mitigation, bioenergy is mentioned as a transitional technology. All renewables technologies should be placed on the same footing and bioenergy be classified as

‘sustainable’ in accordance with Article 10.1(a) of the Taxonomy Regulation clearly stating that renewables are regarded as a sustainable energy source pursuant to Renewable Energy Directive RED II. Accordingly, bioenergy should be added to Section 7.6. Installation, maintenance and repair of renewable energy technologies.

Consistency with RED II is not complete, which should be the case in order not to exclude sustainable biofuels which can significantly reduce greenhouse gas emissions.²

c) Construction industry & Financial sector

The proposed delegated acts represent a notable change to the previous TEG’s recommendations on **buildings’ climate mitigation criteria**, which impact to sustainable finance market is not consistent with the stated objectives of the EU’s Sustainable Finance Action Plan.

We strongly appeal to the Commission that it restores the TEG’s original proposal for **buildings’ energy efficiency**, which is that the top 15% most energy efficient among local stock would be eligible. This criteria would set the same ambition level for different markets, whereas the single EPC level does not, while allowing for the eligibility criteria to tighten over time as buildings reach higher levels of efficiency. In addition, more precision must be given to the ‘do no significant harm’ (DNSH) criteria for buildings.

d) Food industry

The connection between food industry and the criteria that are set on the primary production (agriculture) in the suggested delegated act is a source of great confusion. The referred financial tools in the taxonomy framework are typically not used by Finnish agricultural actors. There are no PIE companies in the primary production sector, either.

However, certain food processing companies that source agricultural raw material fall within this scope. At this stage there seems to be

² For example, taxonomy framework should be fully consistent with the existing EU law (RED II) regarding the sustainability criteria for feedstock. Food and feed crop based biofuels should not be excluded as there is already a 7% cap for them in RED II, and as there is also the Delegated Act on high-ILUC feedstock that phases out high ILUC risk crops such as palm oil. Also, this exclusion would seem to leave out some categories of “novel vegetable” oils such as cover crops, winter crops, cultivation in degraded land etc. that have no or low ILUC effects, high GHG reduction potentials as well as other agricultural benefits. RED II should continue to set the sustainability criteria for biofuels, and full alignment means taxonomy technical screening criteria would be updated automatically in case of changes to RED II.

In addition, classifying biofuels as only transitional activity is ill-suited. Several Member States will be relying on significant greenhouse gas emission reductions from the use of biofuels in transport when aiming for carbon-neutrality by 2050. There will be a need for biofuels until 2050.

uncertainty on how this connection should be dealt with and what the potential the related consequences for the food industry would be.

Criteria for agriculture included in the draft, including verification and reporting, are very restrictive. Hence, it is very likely that there will be no immediate readiness to implement them

e) Steel / Metal

The Commission's draft narrowly focuses on only some parts of steel production's CO₂ emissions. It does this by using the methodology of EU ETS benchmarks to set the thresholds, even though these benchmarks have not been designed for this application and are therefore unsuitable. This may appear to be a purely technical file, but has the potential to hinder, or even prevent, the successful deployment of some of the most promising steel decarbonisation projects, particularly those with high potential to reduce emissions in sites that are above these unsuitable benchmarks, including several hydrogen-based initiatives.

The EU taxonomy mechanism must be fit for purpose. It must not lead to financial or investment leakage. It should support EU-based low-carbon projects' financing while avoiding a further decrease in the EU steel industry's ability to compete globally. Accordingly, these points should urgently be reflected in the delegated act.³

³ Using the principles of standard EN 19694-2 – developed with a mandate from the EU Commission – to assess the relative performance of steel production. This standard should be used instead of the EU ETS benchmarks as these are not able to evaluate the combined environmental impact of the activities of the European steel industry. Using the EU ETS benchmark would not be in line with the Regulation on Sustainable Finance Taxonomy. This is because these benchmarks do not consider the connections between the various production steps. A significant portion of the steel industry's emissions are not even taken into account in these benchmarks, as the respective process gases are transferred to the power sector. It is of utmost importance to use internationally or regionally recognised accounting rules, such as the aforementioned EN standard, to avoid the risk of miscalculating emissions. The systemic operation of steelmaking – in which single production processes are connected into a process chain and optimised in order to achieve the highest efficiency/highest performance of the overall system ((process chain or value chain) – means the EU ETS benchmark cannot be used as an accurate guide to actual emissions.

Using a more integrated lifecycle approach, taking into account that steel is an enabler for CO₂ mitigation in multiple value chains.

Allowing the eligibility of EAF steel production without excluding certain steel qualities for which the proposed threshold of at least 90% scrap sourced iron content in final products would be technically unachievable, like for stainless steel and high alloy steel.

Adding Carbon Capture and Usage (CCU) to the list of low carbon breakthrough technologies and acknowledging alternative sources of hydrogen production.

Acknowledging as screening criteria the mitigation measures incorporated into an investment plan that lead the activity to meet the threshold.

3 Concerns regarding the legislative process

We are deeply worried about the extremely tight timetable which has been set up for creating the taxonomy framework. While fully acknowledging the climate urgency, the legislative process needs to respect the principles of better regulation. The taxonomy exercise is too important to be undermined by a hasty technical process. The carbon-neutrality investments must not be postponed or compromised.

4 Concluding remarks

The Taxonomy framework is very welcome concept and once calibrated in a right way it may significantly help channelling investments towards carbon-neutrality. However, unfortunately, this not the case under the draft delegated regulation which the Commission is consulting on the technical screening criteria. This unfortunate fact is clearly reflected in above-mentioned concrete examples from several fields of Finnish industries and services.

The further development of the Taxonomy must be built and rely on whole lifecycle analysis not only on some part of the lifecycle. The criteria must also be realistic, and science based.

EK urges the EU governments, as well as the European Commission and the European Parliament, to act swiftly and decisively. It is vital that they ensure that the existing competitiveness of business and industry is not undermined, weakening the capacity to address the challenges of climate change as a result.

Confederation of Finnish Industries EK represents private sector (services and industries), has 24 member associations and 15,300 member companies. We speak for employers of all sizes, from public limited companies to SMEs. Our member companies create jobs and welfare in Finland and are responsible for 2/3 of Finland's export of goods and 2/3 of Finland's R&D expenditure.

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