

## RESPONSE TO THE INCEPTION IMPACT ASSESSMENT

# “Commission Delegated Regulation on a climate change mitigation and adaptation taxonomy”

### Introduction

FuelsEurope (representing the EU refining sector) and IOGP (the International Association of Oil & Gas Producers) welcome the EU's efforts to establish a sustainable finance framework that unlocks private investments in projects and technologies to reduce the impact on the environment, reduce greenhouse gas (GHG) emissions and support the transition of industry to a sustainable future.

IOGP supports the goals of the Paris Agreement and the EU's objective of climate neutrality by 2050. The energy transition will require significant investments and behavioural changes, supported by enabling policies.

The more the EU can steer investments towards the least-cost pathway to net-zero emissions, the further and faster it is likely to drive decarbonisation across Europe, maximising the EU's contribution to the delivery of the Paris climate goals. For this reason, we call for alignment between the taxonomy and its thresholds with the least-cost pathway to climate neutrality recognising all technologies available to reduce emissions.

We congratulate the European Commission and the Technical Expert Group (TEG) on the progress made so far in establishing a taxonomy for sustainable investments, and we welcome the opportunity to provide our input at this stage. We would also like to express our interests in participating in the Platform on sustainable finance to contribute to the development of the future delegated acts.

### We take this opportunity to make the following recommendations:

#### **1. The principle of GHG emission reduction based on a life-cycle analysis & technology neutrality should drive the development of the Taxonomy delegated acts**

The EU Taxonomy, and its specific technical screening criteria on climate change mitigation and adaptation, should adopt an inclusive approach that considers all different technologies and sectors that can contribute to the energy transition to be part of the solution.

The explicit endorsement should be given to *any* technology with a potential to reduce CO<sub>2</sub> emissions. No technology or activity that has the potential to contribute a combination of avoided abatement costs should be ruled out upfront.

**We, therefore, challenge the concept of “lock-in effects”, which we view as not wholly consistent with the desire to be technology-neutral. Ultimately the goal is to lower carbon emissions by any technology possible.**

The technical screening criteria in the upcoming delegated acts should consider specific market needs, such that also gradual or stepwise emissions reductions are possible. The criteria need to take into account the scalability of a given technology, its potential for multiple applications, in addition to potential cross-sectoral effects, learnings and carbon abatement costs. To ensure a holistic approach and level playing field comparison of the impact of various technologies, a life-cycle analysis and carbon abatement cost per CO<sub>2</sub> tonne should apply to all technologies without exemptions.

## 2. The delegated acts should clearly define “transitional activities”

The adopted EU Taxonomy Regulation introduced an additional, new category of “transitional activities” which is considered to contribute substantially to climate change mitigation by phasing out greenhouse gas emissions, in particular from solid fossil fuels (article 6.1.a). The addition of transitional activities is supported by the industry as enormous potential exists in the market for the transformation of existing carbon-intensive industries and processes.

Given this development, **we believe that a separate, additional list of transitional activities (including retrofit options) with its own specific Technical Screening Criteria (TSC) reflecting its transitional nature, should be created in the delegated acts (instead of having these activities as a subcategory of “green activities” as outlined in the TEG report).**

Establishing such a list will add clarity to the framework and will help the EU to deliver its climate and energy objectives while providing a wide range of opportunities for the energy transitions across Europe. The policy focus should include feasible, near-term steps that act as building blocks and timely reduce emissions to deliver the Paris Agreement and the EU’s long-term climate targets. There is no silver bullet to combat climate change. All technologies reducing GHG emissions in all economic activities will need to be considered to deliver on the Green Deal ambition, and will be necessary for this energy transition.

Given the importance of the transitional activities, we would be happy to support the Commission in providing input, for example, on the following activities:

- Low-emission and blended fuels: until an advanced drop-in fuels are available at scale to be used at 100%, low-carbon fuels will need to be blended with fossil fuels to deliver CO<sub>2</sub> reduction. Therefore, in the transition, the use of blends and any renewable fuel meeting agreed sustainability criteria (e.g. RED II) should be eligible. The RED II already provides the sustainable criteria that all biofuels need to meet to be considered eligible. We support a full alignment between the delegated act and the sustainability criteria established in RED II;
- Refining and manufacturing of pet (Polyethylene Terephthalate) products;
- Refuelling infrastructures for CNG, LNG, biofuels.
- Use of LNG in public transport, in the shipping industry, bunkering;
- Natural gas heating, including CHP (combined heat and power);
- Natural gas-fired power plants including those that are CCS-ready (*the benefits of natural gas today and tomorrow are outlined [here](#)*).

## 3. The delegated acts should introduce gradual thresholds

Technical screening criteria should reflect a gradual approach and efficiently incentivise transitional efforts. Setting thresholds and ceilings too low at the beginning could *de facto* exclude relevant activities regardless of both their potential contribution to the transition and their ability to improve their own environmental performance, running the risk of unintentionally creating a niche market. Therefore, the threshold level should be technology-neutral and based on GHG emission reductions on life-cycle analysis to be achieved, and not on technology. **In our view, the single threshold proposed by the TEG is not appropriate for the transitional activities. We, therefore, encourage the Commission to determine a methodology for establishing dedicated thresholds for these activities.** For example, the transitional activity threshold should be aligned with existing legislation such as the Electricity Regulation. Such an alignment will ensure a trajectory for meeting the targets and ensure inclusion of activities that contribute to emission reduction including retrofitting of existing processes. The threshold can be reduced with time but should not be set too low too early as otherwise suitable technology, that can contribute to the transition or could be retrofitted, will be excluded already at this stage.

The future Taxonomy’s criteria and thresholds reflected in the delegated acts should be thoroughly impact assessed before their application, to avoid unintended consequences in the market and transition support for the sectors in which they will apply.

In this context, the impact assessment should also take into account:

- the international competitiveness of EU industries and the EU economy in all their aspects,
- the potential risk of offshoring of non-taxonomy-eligible activities to countries with lower climate ambitions,
- efforts of companies that are in transition and that are transforming their business models to be part of the solution. Their access to sustainable finance to fund such transition should be assessed as well.

## 4. Delivering the energy transition with CCUS (carbon capture, utilisation and storage) and hydrogen

The upcoming delegated acts have to enable investments in low-carbon technologies such as carbon capture, utilisation and storage (CCU and CCS) and hydrogen, and recognise their role in reaching a climate-neutral EU economy.

**On CCS:** As stressed by the IEA, in the IPCC Report and the EU Commission Pathways, CCS will be key to meet climate neutrality as set out by the Green Deal. We, therefore, welcome the classification of carbon capture, CO<sub>2</sub> transportation and CO<sub>2</sub> storage as environmentally sustainable activities within the TEG report and request that these technologies are incorporated into the upcoming delegated acts. We also support that all modes of CO<sub>2</sub> transportation are recognised as taxonomy-eligible activities as CO<sub>2</sub> transportation networks will be built in different ways depending on local circumstances.

**On CCU:** We also endorse the recommendation to incorporate a section on CCU as outlined by the agreed Taxonomy Regulation, and would appreciate being part of the debate on the life cycle analysis for CCU and the conditions under which CCU could be included in the EU Taxonomy. There are techniques that enable capturing CO<sub>2</sub> released by industrial processes and convert them into valuable applications (e.g. construction materials, raw materials for the chemical industry, etc.). This way CCU can contribute to a circular economy subject to a lifecycle analysis and clear carbon accounting rules.

**On hydrogen:**

- Today, hydrogen is produced at industrial scale by using gas reforming technologies to chemically separate the carbon and hydrogen contained in natural gas. With CCS, CO<sub>2</sub> emissions from the process are reduced. Hydrogen from natural gas with CCS has the potential to provide significant volumes of near zero-carbon energy to the EU. We, therefore, support the classification of manufacturing and storage of hydrogen<sup>1</sup> as environmentally sustainable activities. We also request that all forms of clean hydrogen are recognised in the manufacturing of products as these thresholds are further developed.
- With gradual technical adaptation, **hydrogen can be transported** in existing EU gas infrastructure, thereby cost-effectively using current gas infrastructure and avoiding the need to duplicate transportation infrastructure. For this reason, we also encourage the Commission to incorporate a section on **transportation of hydrogen** to link to the manufacture of hydrogen and storage of hydrogen.

## 5. Inclusive approach is key to the EU Taxonomy success

### a) Engagement with the Member States Expert Group is vital

While the Commission aims for a homogenous approach throughout the EU, the specific characteristics and needs of Member States should be taken into account, with their trajectory in the energy transition as defined by their National Energy & Climate Plans required by the EU Governance Regulation. The future Taxonomy's criteria, activities and thresholds should be fully assessed by the Member States Expert Group in the early stage in the process.

EU countries have different starting points entailing varying investment needs. Europe's transition to a cleaner society will neither take one single form nor will happen all in one day. Above all, no one should be left behind. Investments considered 'sustainable' today should also not risk becoming 'unsustainable' overnight because they are not listed or do not fit the Taxonomy definition. This is key to ensure regulatory certainty and economic stability given the knock-on impacts on society.

### b) Sustainable Finance Platform must include the real economy representatives

IOGP and FuelsEurope, among other stakeholders, have already expressed concerns on the TEG composition. We believe that the development process of all delegated acts should be transparent and inclusive and we welcome any opportunity to be part of the discussion.

We also believe that the future Platform on sustainable finance should have a broad and comprehensive representation that includes industry/the 'real economy' representatives (e.g. from manufacturing, energy, transport) to ensure that all relevant expertise is available for the further development of the Taxonomy and concerning practical implications of these developments. IOGP and FuelsEurope would be happy to be part of the Platform and provide expertise to the development of future delegated acts.

<sup>1</sup> Section 3.5 "Manufacture of Hydrogen", Section 4.12 "Storage of hydrogen" in the Taxonomy Report: Technical Annex, March 2020.

The Platform should be in a position to develop its own views on the Taxonomy, and while building on the tremendous amount of work done already, it should, independently from the TEG, come to a view of how a taxonomy can be an effective and cost-efficient instrument to meet overall objectives.

## 6. Setting reasonable timelines to implement the EU Taxonomy in an effective manner

IOGP and FuelsEurope would like to emphasise that the reporting on taxonomy-compliant activities will require companies to review their reporting processes and establish new systems/reporting functionalities, and internal processes enabling the changes in data collection, processing and assurance.

This is likely to introduce additional external and internal costs, and together with the timing of the upcoming delegated act<sup>2</sup> on the TSC for mitigation and adaptation by end 2020 and on the disclosure obligation by mid-2021, makes it extremely challenging to meet disclosure obligations for financial year 2021 in the course of 2022. Given this very short timeline (between the publication and the implementation of the DA), it will be very challenging for companies to adapt their reporting system in time particularly given the economic and social challenges, also as a result of the current pandemic.

To ensure a smooth and proper implementation of the future rules, a realistic and well-sequenced application timeline is needed, especially regarding the corporate disclosure obligations. **We, therefore, encourage the Commission to assess the possibilities to consider extending the timeline for the disclosure obligation or retain the principal of one or two pilot years, to ensure smooth implementation of the delegated acts<sup>3</sup>.**

***FuelsEurope and IOGP:** The COVID-19 outbreak has unleashed an unprecedented socio-economic crisis in Europe, and globally, which is affecting all citizens and all economic activities. The energy sector is also subject to unusual times stemming from coronavirus. While the crisis is first and foremost human, the economic consequences loom large and raise several questions around Europe's future strategic industrial capacity. Without industrial activity in Europe, there will not be any future economic recovery and growth. We encourage the European Commission to conduct the appropriate evaluations and to consider these aspects in the future policy tools, to create a predictable and secure climate for investing in a wide range of industrial activities to reach the EU climate goals.*

**ANNEX:** IOGP comments to the TEG Technical Report can be found [here](#).

<sup>2</sup> Required by Article 4delta "Transparency of undertakings in non-financial statements". <https://data.consilium.europa.eu/doc/document/ST-14970-2019-ADD-1/en/pdf>

<sup>3</sup> For example, companies were given 3 years to implement IFRS 16.