



# Press Release- EU Climate Taxonomy Not Fit for 55

Wednesday, 21 April 2021

After many months of intensive lobbying and several months of delay, the final criteria to determine economic activities that contribute significantly to climate change mitigation and adaptation, as part of the EU's sustainable finance taxonomy, has been published today. As expected, the outcome is less fit for 55 than expected and reflects the intense political lobbying led by Member State representatives (and associated incumbent companies) over the last months.

With last night's adoption of a 55% GHG reduction goals for 2030, Europe needs a taxonomy that has teeth and ensures the investment needed for the massive scale up of climate mitigation and adaptation activities across Member States. The final Delegated Act as now proposed goes against the science-based recommendations of the Technical Expert Group, primarily for the activities related to bioenergy and forestry, while the European Commission (supported by the Technical Expert Group and Platform on Sustainable Finance) has been largely successful in achieving an evidence-based approach for the other criteria.

Already in December 2020, Sandrine Dixon-Declève the Co-President of the Club of Rome, a former member of the Technical Expert Group on Sustainable Finance and a member of the Platform of Sustainable Finance, sent a letter after the publication of the draft Delegated Act to the three EU Institutional Presidents Von der Leyen, Michel, Sassoli as well as European Commissioners, setting out that the procedure clearly moved away from a forward-looking approach rooted in science to a back-ward looking approach rooted in vested interests. Sandrine Dixon-Declève maintains that this warning still stands on some parts of the proposed Delegated Act ***"The taxonomy was supposed to be the cornerstone of the EU's sustainable finance policy and the foundation for shifting capital to match European Green Deal and climate neutrality objectives. Unfortunately, this process got out of control due to intense pressure from national interests, including Member State governments and MEP's. This does not bode well for the implementation of our Fit for 55 package; political interests cannot be factored in when there are catastrophic climate impacts."***

A recent attempt to include activities related to gas in the Act, and thus deeming gas as 'green', has been avoided, yet this will be further considered later this year at the demand of carbon-intensive Member States. For the agriculture sector, a decision was also delayed due to a logical decision to wait for "further progress on the negotiations underway on the Common Agricultural Policy (CAP), and in order to achieve greater coherence across the different instruments to achieve the environmental and climate ambitions of the Green Deal." This logic was missing for the bioenergy criteria or for forestry, where a review of the Renewable Energy Directive and forestry policy is expected this year. Sandrine Dixon-Declève reinforces that ***"The forestry and bioenergy outcome is disappointing after a concerted effort and more ambitious recommendations from diverse experts to follow a comprehensive scientific evidence-based mandate."***

The taxonomy remains a dynamic tool, meaning these issues can be corrected, yet it doesn't set a strong precedent for the taxonomy's future development or future decisions related to the transition to a sustainable economy. It is therefore imperative that Europe avoids politically rooted



decision making and comes back to science-based targets. To do that Sandrine Dixson-Declève believes that the ***“The governance of the taxonomy must be re-evaluated to ensure the taxonomy develops through a transparent and evidence-based approach going forward. If this is not immediately guaranteed by the Commission than the credibility of the Platform and its experts is seriously at stake and members like myself will consider stepping down.”***

To date the role of the Platform on Sustainable Finance has been put into question, following the neglect of the Technical Expert Group’s recommendations, and the Commission should emphasise its importance in supporting an evidence-based approach by enhancing its functions – thereby re-instating its intention that the EU taxonomy should be a science and evidence-based tool. The Platform can act to resolve the criteria as well as work with the EU co-legislators to provide the evidence-base for future decisions – supporting to uphold the requirement for technical screening criteria based on conclusive scientific evidence and the precautionary principle enshrined in Article 191 TFEU. Major changes should include enhancing the Platform’s powers and functions to ensure the development of the technical screening criteria takes an evidence-based approach at every stage.

#### Further Quotes

Peter Blom, Chair of the Club of Rome’s Finance Impact Hub and CEO and Chair of the Executive Board of Triodos Bank:

***“Only a robust scientific approach can bring all financial institutions, businesses and citizens on the journey of transformation as part of the recovery from COVID-19 – both in Europe and globally.”***

***“The investment community are looking to apply forward-looking scenarios rooted in science to their investment decision-making processes and so policy decisions have to move away from backward looking approaches rooted in vested interests.”***

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#### Media advisory - Q&A

- **What is this decision?** The European Commission has published its Delegated Act for the so-called EU taxonomy on Wednesday 21<sup>st</sup> April, setting out the technical criteria to determine economic activities that contribute significantly to climate change mitigation and adaptation. The Delegated Act, which is over four months delayed due to intensive lobbying on the detail on the text, is the piece of the secondary legislation needed to establish the EU's classification system of sustainable activities - the EU taxonomy. It follows the political agreement on the Taxonomy Regulation which was agreed on the 18 December 2019.
- **Why is this important?** It adds the technical criteria to the EU taxonomy, outlining what is deemed sustainable in law. If adopted it will add the necessary detail to make the EU taxonomy usable by investors, corporates and governments. Thus, making the "lynchpin" of the first action of the European Commission's 2018 Action Plan on Sustainable Finance effective and implementable - practically laying the foundations so as to reorient capital towards "taxonomy-compliant" activities. This comes at a time when the EU governments are in the final stages of developing their recovery packages - pivotal for how Europe fosters a recovery from the social and economic shock of the COVID-19 crisis, while protecting the European people in the face of a climate and ecological emergency. It also comes at a time,



when the European Commission is preparing its summer package of proposals to update legislation to align with the EU's new 55% 2030 climate target - including a Renewed Sustainable Finance Strategy - and the international climate agenda is ramping in the lead up to COP26 at the end of the year. Therefore, the taxonomy is in an important stepping stone for climate ambition in 2021.

- **What is included?** The final Delegated Act goes against the science-based recommendations of the Technical Expert Group, primarily in the bioenergy and forestry sectors, while largely adhering to them in other sectors.
- **How did it come to this?** This follows an intense political fight led by Member State representatives over the criteria to be included in the Delegated Act. The last months of the development of the Delegated Act ended up being a politically negotiated compromise (based on vested interests) rather than a science-informed process. A recent leak has alluded to the fact that gas, which was once included in the text to the shock of environmentally-minded organisations and governments, has now been removed yet will be further considered later this year at the demand of carbon-intensive Member States. For the forestry criteria, a powerful campaign led by the Swedish and Finnish governments seems to have quashed the recommendations rooted in science. It is expected that the Act will include activities in this sector, deemed 'green', that will in fact be detrimental to the environment.
- **What this means for future policy-making if it's adopted?** For future policy-making, this reduces the short-term effectiveness of the taxonomy in acting as a "lynchpin" for other policy to deliver a net-zero emissions, resilient and sustainable economy. In fact, it will lead to the reorientation of capital to some activities which are detrimental to the EU's environmental sustainability goals. It will limit the value of the upcoming EU Green Bond Standard in providing trust and confidence for investors in avoid greenwashing. The taxonomy remains a dynamic tool, meaning these issues can be corrected yet it doesn't not set a good precedent for the taxonomy's future development or future decisions related to the transition to a sustainable economy. The Commission intends to put forward separate legislative proposals in summer and Q4 2021 to establish specific screening criteria for decarbonisation activities, including the role of transitional technologies such as natural gas. These should provide clarity on how activities necessary for the transition to a net-zero economy are separate those deemed 'green' and help develop transition finance more broadly.
- **What this means for the Platform?** The publication of the Delegated Act puts into question the role of the Platform of Sustainable Finance which advises the Commission, as the final criteria has drifted away from the recommendations of the previous Technical Expert Group, favouring political interest over science-led decisions. The Technical Expert Group on Sustainable Finance, established by the European Commission in July 2018, developed recommendations for technical screening criteria based on conclusive scientific evidence and the precautionary principle enshrined in Article 191 TFEU (as mandated within the Taxonomy Regulation) in a final report on 9th March 2020. This report was developed with engagement of over 200 additional experts over 20 months and with substantial consultation and scientific and technical input. Yet, the Delegated Act does not justify its divergence from the TEG's recommendations or uphold the requirement for technical screening criteria based on conclusive scientific evidence and the precautionary principle enshrined in Article 191 TFEU.