

Feedback Triodos Bank on draft DA Taxonomy

Triodos Bank would like to give feedback to the European Commission's draft Delegated Act (hereafter identified as 'draft DA') on the EU Sustainable Taxonomy. As a values-based bank established after the 1970s oil crisis, and after four decades of successful finance of positive impact business models, Triodos Bank repeats and underlines our strong support for an EU sustainable taxonomy rooted in climate and environmental science.

We agree with the global climate strikes by the young generation who have consistently made a simple demand: listen to the science. Just as experts and evidence have been key assets in addressing the COVID-19 pandemic, so too must they, and not sectoral interests, determine our policies to fight the climate crisis.

While we recognise that the draft DA has taken into account the recommendations of the Commission's Technical Expert Group (TEG) on the climate taxonomy to a large extent, we would like to voice substantial concerns that the draft DA has ignored or weakened the TEG's scientific advice for several activities.

We outline the areas that relate to our experience in sustainable finance, and which need to be revised to produce a taxonomy that is based on scientific evidence, supports fully sustainable economic activities, accelerates the shift from unsustainable to sustainable activities, and truly reduces the risk of greenwashing. In addition to these, we strongly support the development of a taxonomy of harmful activities, which is crucial to reliably identify risky sectors and accelerate their transition.

Forestry & Agriculture: exclude reduction of carbon sinks and biodiversity

The taxonomy is meant to rely on the notion of sustainable forest management, which entails cutting less than the annual growth and giving equal consideration to environmental and social aspects, as well as economic ones. However, the draft DA would allow activities such as short-term rotation below 20 years, which is not climate-neutral due to the carbon released.

Common definitions, criteria and indicators for Sustainable Forestry Management (SFM) have been developed since the early 1990s, and the TEG's recommendation to link the definition of sustainable agriculture directly to these SFM requirements would guarantee the maintenance of carbon sequestration. Moreover, forestry DNSH criteria need to exclude the mitigation harm caused by conversion of carbon-rich soils to forest and promote afforestation with native species. The Commission could have easily confirmed the consistency of its own regulatory framework by using the TEG's recommendation in this respect.

Furthermore, short-term rotation usually employs the wrong type of trees without considering existing forest, tree structures or biomass. Forestry operations should not qualify if they reduce forests' carbon sink function, lead to irreversible forest degradation or to biodiversity loss.

Finally, afforestation or reforestation of forests is insufficient to replace forests lost to deforestation or which are highly degraded. It is important to protect existing natural forests, restoring and enriching biodiversity as well as the carbon storage potential to generate forests that are resilient. A highly referenced April 2019 study published in Nature concluded that “restoring natural forests is the best way to remove atmospheric carbon”. The Commission should accordingly tighten forestry criteria.

Livestock: only include organic & circular farms

We recommend not including livestock activities in the taxonomy, unless it regards fully circular organic farms. The industry as a whole is highly carbon-intensive, polluting, and strongly linked to deforestation. In addition, there are major animal welfare and human health concerns. Including livestock in the taxonomy risks slowing down the transition to a more sustainable, plant-based diet, as required in Paris-compliant climate scenarios.

We are very concerned that the Commission has removed the critical frame of a specific stated GHG reduction benchmark trajectory for farm mitigation. Concerns also remain over the sustainability of concentrated livestock farming which is carbon-intensive, emissive, polluting, and linked to deforestation. Livestock production should not be considered a sustainable activity under the EU Taxonomy if it harms the environment, and slows down a transition to a more sustainable, plant-based diet, as required in Paris-compliant climate scenarios for Europe.

Fossil fuels (including gas): Life-cycle emissions of green power generation must be kept below 100g CO₂e/kWh and move to net-zero as soon as possible

Heat and electricity generation are responsible for over a quarter of the EU’s greenhouse gas emissions. It is vital that the EU Taxonomy helps investors avoid funding high-carbon assets, that cannot operate for their useful lives, by sending the right signals already to decarbonise the sector. The TEG recommended an energy-sector-wide emissions intensity threshold of 100g CO₂e life-cycle emissions per kWh for electricity generation, heat production and the co-generation of heat and power. The Commission’s draft criteria rightly retain this life-cycle intensity limit of 100g CO₂e/kWh for making a substantial contribution to climate mitigation. The Commission’s criteria would ensure that unabated fossil fuelled power generation, including new gas-fired power plants, could not be labelled as sustainable investments.

Weakening this threshold would bring the entire taxonomy into disrepute. In fact, the threshold should be tightened at least every 5 years. Zero-carbon by 2050 may be too late for the planet, we encourage a path to zero as soon as possible. Mid-stream oil and gas is also excluded and should not be reincluded.

Similarly, the adaptation criteria for both substantial contribution and DNSH should be reviewed to reduce loopholes enabling investments in unabated fossil fuels. As the draft DAs stand, creative interpretation of the adaptation criteria could lead to investments prolonging the lifespan of high-emitting activities, delaying the transition to a low-carbon economy. The Commission should clarify the draft DAs and strengthen the climate adaptation criteria’s impact safeguards.

Bioenergy: exclude harmful burning of forest biomass

The draft DA has chosen to accept that all forest biomass - wood sourced directly from forests - may be burned as feedstocks and that almost any activity that is aligned with the flawed Renewable Energy Directive is counted as sustainable, including the use of dedicated cropland.

This is contrary to scientific evidence and unacceptable. It contradicts all recent authoritative scientific research and the Commission's own impact assessment on bioenergy, which stated that the idea that forest biomass can mitigate climate change is extremely problematic and acknowledged that demand for forest biomass is hindering EU forests' ability to act as a carbon sink. Burning wood as feedstock is in our view harmful to the planet.

This year, the Commission reported that Europe's carbon sink has seen significant losses due to "increasing economic demand for forest biomass" as well as fires and pests. That's why forest biomass must be excluded as an eligible fuel in the up-coming revision of RED II – the recast Renewable Energy Directive (EU) 2018/2001 - whose own calculation methodology assumes "no net-carbon emissions from land-use change" as a baseline.

The Commission should reverse its decision to classify the burning of all forest biomass for energy as sustainable and exclude from eligibility all bioenergy feedstocks that increase emissions compared to fossil fuels, including purpose-grown crops.

Consistently, the Commission should exclude the use of forest biomass in biofuel and biogas for transport and reverse the inclusion of all biofuels and biogas from feedstocks in Annex IX of the REDII eligible for use in transport.

Finally, the delegated act must increase its savings threshold at least every 5 years, as recommended by the TEG, in line with future climate ambition and a net-zero emissions trajectory to 2050.

Hydrogen: exclude manufacturing with fossil power

Positively, the draft DA has improved the TEG's emissions threshold. However, the Commission should include an explicit point excluding hydrogen manufactured with fossil and/or non-renewable power from the taxonomy. Also, upstream emissions (including fugitive methane emissions) must be considered in the methodology used to calculate the life-cycle emissions of hydrogen production – this is best covered by using the Product Environmental Footprint method 2013/179/EU.

Datacenters: require energy saving first

Data centers as a transitional activity should comply to the general qualification as contributing substantially to climate change mitigation, if their greenhouse gas emissions are substantially lower than the sector or industry average, they do not hamper the development and deployment of low-carbon alternatives and they do not lead to a lock-in of assets incompatible with the objective of climate-neutrality, considering the economic lifetime of those assets. The proposed threshold follows the European Code of Conduct on Data Centre Efficiency and Celenec norm 50600-99-1, but these ignore the necessity of energy savings, which can be very high in the case of datacenters. Ignoring necessary energy savings of data centers will hamper the European Union from achieving carbon-neutrality of this activity by 2030.

We suggest applying the general requirement for transitional activities also to data centers and include only those datacenters with CO2-emissions lower than the average of the top 10% performers in this industry. Moreover, the DNSH criteria must include harm to the use of land, and as such avoid the deterioration of land and eco-systems as a consequence of building datacenters.