### Europe's Sustainable Finance Taxonomy is facing intense pressure to abandon the science

One of the most influential policy initiatives of the European Commission in the past year has been the "EU Taxonomy", essentially a shopping list of investments making a substantial contribution to achieving Paris Agreement climate targets and a 1.5°C temperature goal. The Taxonomy provides a common language for sustainability reporting, a foundation for green bond reporting and much more. Its science-based approach is designed to give confidence that environmental claims are not greenwashing.

The idea has been so influential that some 15 countries around the world are instituting taxonomies, largely modelled on the EU's. However, success begets reaction, and arguments are now raging in the EU about natural (or, more correctly, fossil) gas. This reaction threatens confidence in the Taxonomy.

#### Climate science is challenging our understanding of transition

Our understanding of climate action has had to change. Perhaps ten years ago, fossil gas was promoted as part of a climate solution, a bridge from coal-fired power to what would eventually be a clean energy grid, once renewables were cheap enough and we figured out challenges with consistent supply.

But two things have changed.

First, a continuing *increase* in global emissions has steepened the emissions reduction pathway we have to achieve to meet our Paris Agreement targets. This led to the IPCC saying in 2018 that we need to achieve 55% global cuts in emissions by 2030; a target now broadly reflected in the 2030 targets announced by major developed economies.

The IPCC has made it clear that there is no room for new fossil fuel investments if we are to avoid catastrophic climate change. The IEA backed this up in its World Energy Outlook report this year, reiterating that to meet the 1.5°C target, there can be no new fossil fuel investments.

Second, new satellite data have revealed that the fossil gas system has been leaking methane at <u>far</u> <u>greater levels</u> than previously assumed. This is shocking, as methane is expected to be over 80 times <u>more potent</u> that CO<sub>2</sub> over the next two decades and hence a tiny level of leakage drastically reduces any benefits over coal.

This is tough, as most national climate change plans still have switching to gas embedded within them. But numbers are numbers and science is science. Based on the latter gas should not be labelled as green.

# The Taxonomy's 100gms threshold is in line with Europe's 2030 emission reduction targets,

Last year the EU's Technical Expert Group on Sustainable Finance, of which we were members, recommended a technology and fuel-agnostic approach for electricity generation to meet the IPCC requirements. That approach set a threshold of  $100g\ CO_2e/kWh$  to count as sufficiently sustainable to be classified as green within banks' Green Asset Ratios and asset managers' Green Investment Ratios.

This approach has been incorporated into the Taxonomy Act that has been passed by the European Parliament and was already integrated into recovery plans and green bond issuances by some member states.

These thresholds are calculated based on the EU's 2030 targets, 2050 power sector emissions targets and expected future electricity demand.

Even in the most efficient combined heat and power plants, fossil gas power has a carbon intensity of more than double the  $100g\ CO_2e/kWh$  threshold. For the most efficient conventional gas power plants, emissions are more than three times that figure. It is possible for new gas-fired power plants to get under the  $100g\ threshold$ , but only with carbon capture & sequestration or other abatement technologies.

# Russia has adopted the 100gms threshold

In September this year Russia's Duma legislated for the adoption of a <u>green taxonomy</u> that uses the EU's 100gms threshold for electricity generation. To now make the EU Taxonomy weaker than Russia's is, at the least, an odd step for the EU's international climate diplomacy.

# Gas-fired power has been excluded from China's Green taxonomy

In April this year China updated its <u>taxonomy</u> to exclude gas-fired electricity generation.

### Investors reject Fossil Gas' inclusion into the Green taxonomy

Maybe most crucially, investors represented by the <u>Net Zero Asset Owner Alliance holding €9 trillion</u> in assets have publicly rejected a green label for gas In November this year.

### The Commission faces intense pressure to label gas-fired power as green

Several EU Member States have been pushing for fossil gas-fired power to be included. This is at the same time that the EU, jointly with the US, has launched the Global Methane Pledge.

If the EU were to relax the threshold of its Taxonomy, this would damage its scientific credibility and bring the EU from its position of climate leadership to one weaker than China and Russia. Should this happen, other taxonomies based on the EU Taxonomy might also take this as a signal to relax their own thresholds.

The IPCC has explained that there is no room for new fossil fuel investments if we are to avoid catastrophic climate change. If one of the most advanced economies in the world cannot recognise this, what hope for the rest?

The decision on gas in the Taxonomy is one with potential global ramifications – if included, it makes it impossible to meet our Paris Agreement commitments; and turns us into a climate laggard. To keep to the science reinforces our position as a climate leader.

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