

## ORGALIM RESPONSE Consultation by Technical Expert Group on Sustainable Finance

Reference document: [Feedback on the 1<sup>st</sup> round climate change mitigation activities](#)

22 February 2019

### GENERAL COMMENTS

Orgalim representing Europe's technology industries is committed to an ambitious climate policy and supports a firm implementation of the Paris agreement.

Designing an EU taxonomy of what represents an environmentally sustainable economic activity in times when other regions of the world are in the process of doing so is in our view closely linked to the question of European sustainability leadership, which we generally support. Also, linking the EU's policy objectives, and its energy, climate and environment objectives in times of implementing the Paris Agreement in particular, is a very strong market and investment signal that can trigger true change in the market if properly designed. Given the far-reaching consequences of the taxonomy (namely no access to finance for an economic activity of a company), the importance of a well-designed and thoroughly thought through concept that rewards for European technology leadership and innovation cannot be overestimated. The following principles should in our view be taken into account when defining the taxonomy to mobilise more investments in support of sustainable growth and climate goals:

**Technology-neutrality:** The taxonomy should focus on defining sustainable use-cases, without being technology-specific. This will enable to avoid technology-bias, especially against innovative offers, and allow the taxonomy to be future-proof. The list of sustainable activities should not be exhaustive / exclusive, and should allow for further qualification of activities by sector, enabling flexibility to account for innovation. In addition, the impact on research & innovation financing in Europe must be carefully assessed. It would be a burden for the European innovation system if innovation financing becomes subject to top-down conditionalities. Cross-cutting and application-neutral R&I-activities are difficult to be categorized in the sense of the envisaged taxonomy. A lack of financing for these highly important activities might be the consequence."

**Performance criteria:** the taxonomy is not the right place to define performance criteria, that is best performed in standards. Reference to standards should rather be made, which would also avoid locking-in criteria rapid obsolescence of definitions that can evolve in time.

The criteria should incentivise industry to become ever more sustainable and rather than establishing “brown” or “black” listing. The “no significant” harm criteria should be analysed accordingly.

Orgalim agrees with the principle of defining the metric according to existing international life cycle carbon footprint standards.

Using PEF and OEF in the taxonomy however risks misleading the consumer due to misleading results. Before using it, important barriers would have to be removed which we specify in Orgalim’s position paper here:

[https://www.orgalim.eu/sites/default/files/attachment/Orgalime%20response%20PEF OEF consultation 2018 12 18 final.pdf](https://www.orgalim.eu/sites/default/files/attachment/Orgalime%20response%20PEF%20OEF%20consultation%202018%2012%2018%20final.pdf)

In the chapter on “manufacturing” process and product related criteria are often mixed thereby causing confusion. Where the taxonomy tackles a manufacturing process (“greening of”), the criteria should in our view relate to process aspects. Where the taxonomy aims at greening other sectors by products (“greening by”), the criteria should focus on product related aspects.

**Maintenance and Services:** services supporting targeted sectors, such as design, installation, maintenance, operational support, consulting etc. should be included. All these subcontracted life phases should also appear inside the list such as the manufacturing life phase which can be subcontracted. Such services also enable additional energy efficiency gains and improvement of performance that need to be considered.

**Enabling sectors:**

- **Architectures and systems:** In most cases, full architectures or systems are required to deliver energy and CO<sub>2</sub> savings. We therefore need to include a system approach to allow the qualification of full architectures that contribute to the creation of sustainable assets and infrastructure.
- **Digitisation/Software:** convergence of IT and OT is leading to increased energy efficiency and CO<sub>2</sub> reductions and we recommend that softwares also qualify in the taxonomy.

**Greenfield and brownfield:** greenfield and brownfield (retrofit) applications need to be differentiated, as the potential for energy-efficiency and CO<sub>2</sub> savings will be very different. For instance, new building or data centers can reach a lower absolute intensity of energy consumption (in kWh/m<sup>2</sup> for buildings, in PUE for datacenters), than retrofitted existing buildings and data centers. Both nonetheless are essential to the climate transition, as retrofit of existing infrastructure represents approximately 50% of required CO<sub>2</sub> savings over the coming decades.

**Flexibility of the taxonomy:** The taxonomy seems to be derived from a black and white understanding of economic activities, either being sustainable or not, while reality paints a more differentiated picture with many (policy, technological, economic) conflicts that require trade offs to come to an overall sustainable result in environmental, social and economic terms.

**National contexts of economic activities** may have to be better taken into account to properly evaluate the environmental sustainability of an economic activity.

The **taxonomy should not only be designed from a 2050 perspective alone, but well take into account the transition phase** which may require different technologies to be applied during this transformative process than after implementing carbon-neutrality mid-century. Otherwise important technology solutions, including energy efficiency solutions, especially for decarbonising energy intensive processes may not be tapped in the transformation up to 2050. Only competitive companies will have the necessary resources to invest in future solutions.

**Limiting administrative and other burden for companies:** Administrative burden, human and financial resources necessary for implementing the taxonomy, such as for gathering, evaluating and presenting the necessary data and information to demonstrate compliance with the different criteria and technical screening criteria will pose practical challenges to companies, and SMEs in particular, and should therefore be limited to the necessary and build on existing tools.

**Consistency** between the technical screening criteria to be developed by the Technical Expert Group (TEG) on Sustainable Finance and the pending draft regulation on establishing the taxonomy and the wider political context of implementing the Paris Agreement at this stage not ensured as the legislative process is still pending. The criteria should not overlap or divert from what is already regulated in the disclosure proposal. We suggest that the taxonomy is aligned with the reporting suggested in the TEG report on climate-related disclosures., Should reference be made to the EU energy labelling Regulation and its implementing measures, it must be taken into account that following the latest recast no products should fall within the top two classes of the energy label at the moment of introduction of the newly rescaled label. Consequently, if thresholds referred to the top classes of the energy label, no product would pass the proposed threshold despite being the most efficient in the market. Finally, the taxonomy is developed for standardising green financial products and should be used for this purpose. Should it be considered for use in other instruments, such as public investment and policy, we mind caution as further sustainability criteria may play a role in the given context.

**Global context:** As stated in the [Commission Communication "Clean Planet For All"](#) international collaboration is vital. Although the EU's leadership is critical to building momentum on sustainable finance, a mobilisation of global financial markets will be required to reach the Paris agreement.

## COMMENTS REGARDING MANUFACTURING SECTOR ACTIVITIES AND PROPOSED TECHNICAL SCREENING CRITERIA

### 1.1. Energy and resource efficiency in manufacturing - Feedback questions:

(Reference document [here](#), pg. 57-59)

<p>1. Do you agree with the proposed principle for determining a substantial contribution to climate mitigation for this activity? [Yes/No]. If not, what alternatives do you propose and why? We generally agree with the suggested principle to “demonstrate substantial GHG emissions reductions for both new and upgrades of existing industrial facilities and production processes through improvements in energy and resource efficiency or other mitigation measures”. However, the suggested matrix raises more questions than answers since proposing product specific/unit-specific criteria rather than process specific ones. Resource efficiency of manufacturing processes (such as water consumption or material reduction) is not adequately addressed in principle.</p>
<p>2. Do you agree with any of the proposed metrics for assessing the extent of the mitigation contribution? [Yes/No]. If yes, please explain which and give your rationale. If not, what alternatives do you propose and why? It remains unclear how resource efficiency would be measured. Existing harmonised EU and international standards should be used.</p>
<p>3. Thresholds have not yet been developed for this activity. You may propose thresholds that could be considered. Threshold should be aligned with the overarching goals, notably the commitments made under the Paris Agreement.</p>
<p>4. Do you agree with the ‘do no significant harm’ criteria identified for these activities? [Yes/No]. If not, what alternative approach or requirements do you propose (e.g. referring to existing market initiatives and best practices) and why? Yes, however, these are mostly not defined.</p>
<p>5. Is there any key area where significant harm needs to be avoided and which is not mentioned already? [Yes/No]. Please explain why and what requirements could be used to avoid such harm.</p>
<p>6. Would the proposed criteria give rise to adverse consequences, e.g. risk of stranded assets or the risk of delivering inconsistent incentives? [Yes/No]. Please explain.</p>

The **criteria should not only be designed from a 2050 perspective alone, but well take into account the transition phase** which may require different technologies to be applied during this transformative process than after implementing carbon-neutrality mid-century. Otherwise important technology solutions, including energy efficiency solutions, especially for decarbonising energy intensive processes may not be tapped in the transformation up to 2050. Only competitive companies will have the necessary resources to invest in future solutions.

7. Can the proposed criteria be used for activities outside the EU? [Yes/No]. If not, please propose alternative wording that could be considered.

### 1.2. Manufacture of renewable energy equipment - Feedback questions:

(Reference document [here](#), pg. 61-62)

1. Do you agree with the proposed principle for determining a substantial contribution to climate mitigation for this activity? [Yes/No]. If not, what alternatives do you propose and why?  
No. The definition of the contribution of an economic activity to contribute substantially to climate change mitigation should be revised, as follows:

“An economic activity shall be considered to contribute substantially to climate change mitigation where that activity and its customers’ selection criteria substantially contributes to the stabilization of greenhouse gas concentrations in the atmosphere at a level which prevents dangerous anthropogenic interference with the climate system by avoiding or reducing greenhouse gas emissions or enhancing greenhouse gas removals through any of the following means:

- (a) *generating, storing or using renewable energy or climate-neutral energy (including carbon neutral energy), including through using innovative technology with a potential for significant future savings or through necessary reinforcement of the grid;*
- (b) *optimizing by trade-off between energy efficiency and resource efficiency;*
- (c) *increasing clean or climate-neutral mobility;*
- (d) *switching to use of renewable materials;*
- (e) *increasing carbon capture and storage use;*
- (f) *phasing out anthropogenic emissions of greenhouse gases, including from fossil fuels;*
- (g) *establishing energy infrastructure required for enabling decarbonisation of energy systems;*

- (h) *producing clean and efficient fuels from renewable or carbon-neutral sources.*  
 (i) *digitalizing the lifecycles of products and systems with optimized environmental benefits.*

Attention shall be paid to not merge NACE macro sectors as done for "Energy and resource efficiency in manufacturing", "Manufacture of renewable energy equipment", "Manufacture of low carbon transport vehicles, equipment and infrastructure" and the "Manufacture of energy efficiency equipment for buildings", all being inside the same Macro sector "C", where the criteria are different.

2. Do you agree with the proposed metrics for assessing the extent of the mitigation contribution? [Yes/No]. If not, what alternatives do you propose and why?

No, if the macro-sector is "Manufacturing" only the manufacturing phase of the lifecycle should be analysed, because only this field is controlled and is part of the ownership of manufacturers.

Otherwise interdependencies should be mentioned, as mentioned in question 1.

The macro-sector should differentiate household appliances (Business-to-consumer domain/B2C) and industrial equipment and solutions (Business-to-business/B2B domain).

Technology neutrality is not guaranteed. It should be possible to accommodate technology innovation and the arising of new RES technologies in particular.

The suggested "Circular Economy" criteria mix process and product related aspects, which needs to be clarified.

3. Where thresholds have been considered, please indicate whether you agree with the proposed thresholds for the activity to qualify for inclusion in the Taxonomy. [Yes/No]. Please explain your answer. If relevant, you may propose alternative thresholds that could be considered.

Not applicable.

4. Do you agree with the 'do no significant harm' criteria identified for these activities? [Yes/No]. If not, what alternative approach or requirements do you propose (e.g. referring to existing market initiatives and best practices) and why?

No. The Circular Economy is not only related to material efficiency. An environmentally conscious design shall answer customer needs and optimise the overall environmental performance from a life cycle perspective using energy and material efficiency as leverage of this optimisation, related to dependability performance (durability, reliability, reparability, recyclability) and safety.

Examples:

<p>a. A transformer loaded at 90% operated at 30 °C has 17% faster ageing at 1.5°C and 26% at 2°C.</p> <p>b. Metals such as carbon steel and copper used in urban and industrial area related to the Eurocode 3, being far from coastal, such as Brussels has a lifespan reduced by 25% (25 years to 20 years) due to climate change only by thermal and humidity changes (Meteonorm database Geneva)</p> <p>I. 2005: Temperature avg 11.19°C, Relative humidity avg 74.99%</p> <p>II. 2050: Temperature avg 11.26°C, Relative humidity avg 81.24%</p>
<p>5. Is there any key area where significant harm needs to be avoided and which is not mentioned already? [Yes/No]. Please explain why and what requirements could be used to avoid such harm.</p> <p>Item 4 highlights that the separation of the environmental topics such as Circular-economy material and energy efficiencies and environmental footprint topics avoids any optimisation of the greenest products and systems.</p> <p>Example: If a product environmental footprint (PEF), included in a system, has an energy efficiency which represents 80% of the PEF, a trade-off between energy and material efficiencies shall be done.</p> <p>In addition, the ageing of any re-used part or products should be considered by CEN CLC JTC10. In addition, numerous comments on the current drafted JTC10's documents aiming to optimise the material efficiency were not taken into account because the scope of the CEN CLC JTC10 is mainly assessments.</p>
<p>6. Would the proposed criteria give rise to adverse consequences, e.g. risk of stranded assets or the risk of delivering inconsistent incentives? [Yes/No]. Please explain.</p> <p>The optimisation of the environmental benefit can come from the existing standards, especially those dealing with environmentally conscious design and manufacturing process.</p> <p>In addition, related to circular economy the CEN CENELEC ETSI JTC10 received numerous comments and negative votes, at the current stage and there is no warranty to get at the end an optimised environmental benefit as the current documents deal with assessments and not optimisations.</p> <p>The regulation should specify the minimum criteria and the market assessment.</p>
<p>7. Can the proposed criteria be used for activities outside the EU? [Yes/No]. If not, please propose alternative wording that could be considered.</p> <p>Yes. Currently IEC/ISO standardisation bodies improve or start new standards dealing with environmentally conscious design and circular economy.</p>

Attention is paid to not deviating from currently existing or in process European documents. This set of documents is in upstream of the international standardisation process.

### 1.3. Manufacture of low carbon transport vehicles, equipment and infrastructure- Feedback questions:

(Reference document [here](#), pg. 64-65)

1.	Do you agree with the proposed principle for determining a substantial contribution to climate mitigation for this activity? [Yes/No]. If not, what alternatives do you propose and why?
2.	Do you agree with the proposed metrics for assessing the extent of the mitigation contribution? [Yes/No]. If not, what alternatives do you propose and why? At this stage the focus is on road and land transport. However, the manufacture of other types of transportation fleets and infrastructure should be considered in a coherent manner to arrive at consistent criteria across different types of transport and tap climate mitigation potentials effectively.
3.	Where thresholds have been considered, please indicate whether you agree with the proposed thresholds for the activity to qualify for inclusion in the Taxonomy. [Yes/No]. Please explain your answer. If relevant, you may propose alternative thresholds that could be considered.
4.	Do you agree with the 'do no significant harm' criteria identified for these activities? [Yes/No]. If not, what alternative approach or requirements do you propose (e.g. referring to existing market initiatives and best practices) and why?
5.	Is there any key area where significant harm needs to be avoided and which is not mentioned already? [Yes/No]. Please explain why and what requirements could be used to avoid such harm.
6.	Would the proposed criteria give rise to adverse consequences, e.g. risk of stranded assets or the risk of delivering inconsistent incentives? [Yes/No]. Please explain.



7. Can the proposed criteria be used for activities outside the EU? [Yes/No]. If not, please propose alternative wording that could be considered.

**1.4. Manufacture of energy efficiency equipment for buildings - Feedback questions:**

(Reference document [here](#), pg. 66-67)

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| 1. | Do you agree with the proposed principle for determining a substantial contribution to climate mitigation for this activity? [Yes/No]. If not, what alternatives do you propose and why?  |
| 2. | Do you agree with the proposed metrics for assessing the extent of the mitigation contribution? [Yes/No]. If not, what alternatives do you propose and why?   |
| 3. | <p>Where thresholds have been considered, please indicate whether you agree with the proposed thresholds for the activity to qualify for inclusion in the Taxonomy. [Yes/No]. Please explain your answer. If relevant, you may propose alternative thresholds that could be considered.</p> <p>We recommend establishing consistency with existing standards and EU legislation, notably existing ecodesign and energy labelling implementing regulations.</p> <p>Referring to appliances that are “labelled according to EU regulations as being the most efficient, such as washing machines or dishwashers”, needs to be adapted since following the latest review of the energy labelling framework regulation no products should fall within the top two classes at the moment of introduction of the newly rescaled label. Consequently, no product would pass the proposed threshold despite being the most efficient in the market.</p> |
| 4. | Do you agree with the ‘do no significant harm’ criteria identified for these activities? [Yes/No]. If not, what alternative approach or requirements do you propose (e.g. referring to existing market initiatives and best practices) and why?   |
| 5. | Is there any key area where significant harm needs to be avoided and which is not mentioned already? [Yes/No]. Please explain why and what requirements could be used to avoid such harm.   |

6. Would the proposed criteria give rise to adverse consequences, e.g. risk of stranded assets or the risk of delivering inconsistent incentives? [Yes/No]. Please explain.
7. Can the proposed criteria be used for activities outside the EU? [Yes/No]. If not, please propose alternative wording that could be considered.

### 1.5. Manufacture of other low carbon technologies- Feedback questions:

(Reference document [here](#), pg. 69-70)

1. Do you agree with the proposed principle for determining a substantial contribution to climate mitigation for this activity? [Yes/No]. If not, what alternatives do you propose and why?
<p>2. Do you agree with the proposed metrics for assessing the extent of the mitigation contribution? [Yes/No]. If not, what alternatives do you propose and why?</p> <p>The TEG proposes to define metric that builds on existing life cycle carbon footprint standards. Standards currently being reviewed include:</p> <ul style="list-style-type: none"> <li>- ISO 14067:2018 GHG carbon footprint of products -requirements and guidelines for quantification</li> <li>- GHG protocol – product life cycle accounting and reporting standards</li> <li>- PAS 2050:2011 – specification for the assessment of the life cycle GHG emissions of goods and services</li> <li>- The product environmental footprint (PEF) and organisational environmental footprint (OEF) as defined in Commission Recommendation 2013/179/EU</li> </ul> <p>Orgalim agrees with the principle of defining the metric according to existing international life cycle carbon footprint standards. Using PEF and OEF in the taxonomy however risks misleading the consumer due to misleading results. Before using it, important barriers would have to be removed which we specify in Orgalim’s position paper here:  <a href="https://www.orgalim.eu/sites/default/files/attachment/Orgalime%20response%20PEF_OEF_consultation_2018_12_18_final.pdf">https://www.orgalim.eu/sites/default/files/attachment/Orgalime%20response%20PEF_OEF_consultation_2018_12_18_final.pdf</a></p>
3. Where thresholds have been considered, please indicate whether you agree with the proposed thresholds for the activity to qualify for inclusion in the Taxonomy. [Yes/No]. Please explain your answer. If relevant, you may propose alternative thresholds that could be considered.

The range of methods accepted to demonstrate greenhouse gas emission reduction should be more open.
4. Please indicate any key area where significant harm needs to be avoided. Please explain and propose criteria where appropriate.
5. Would the proposed criteria give rise to adverse consequences, e.g. risk of stranded assets or the risk of delivering inconsistent incentives? [Yes/No]. Please explain.
6. Can the proposed criteria be used for activities outside the EU? [Yes/No]. If not, please propose alternative wording that could be considered.

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