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IIGCC publishes open letter calling for gas to be excluded from the EU Taxonomy

Open letter to EU Member State representatives and MEPs,

Cc President von der Leyen, Vice-President Timmermans and Commissioner McGuinness,

The Institutional Investors Group on Climate Change (IIGCC) is the leading European membership body enabling the European investment community in driving significant and real progress by 2030 towards a net zero and resilient future. IIGCC's 370+ members, representing €50 trillion AUM, are in a position to catalyse real-world change through their capital allocation decisions, stewardship and engagement with companies and the wider market, as well as through their policy advocacy.

Following previous letters to President von der Leyen and Commissioner McGuinness, I am now writing to you regarding the forthcoming Taxonomy Complementary Delegated Act.

Investors are using the EU Taxonomy to assess alignment of their portfolios and investments with net zero emissions. As such, they view the Taxonomy as a cornerstone for Europe's sustainable finance agenda, both from a regulatory perspective and in terms of the wider political signal it sends to financial institutions and corporates in the EU and beyond.

As we have previously stated, IIGCC strongly supports the alignment of the Taxonomy with net zero emissions, and with a science-based approach.

As a result, we remain strongly opposed to any inclusion of gas within the scope of the Taxonomy. The fundamental purpose of the Taxonomy is to enable capital to be channelled towards economic activities that are fully compatible with the EU's commitment to climate neutrality by 2050 and reducing emissions by 55% by 2030. Moreover, the IEA net zero by 2050 pathway is clear that demand for natural gas will need to shrink by 8% below 2019 levels by 2030 and by 55% by 2050. Existing gas-fired power plants will also have to be phased out by 2035. Put simply, there is no remaining carbon budget for new investments in natural gas.

Article 10(3) of the EU Taxonomy Regulation (2020/2088)[1] provides the European Commission with a mandate to develop a Climate Delegated Act, detailing 'technical screening criteria' for determining which economic activities 'significantly contribute' to climate change mitigation while not doing 'significant harm' to other environmental objectives. The Taxonomy's technical screening criteria make clear that power generation, including gas, must remain within an emissions threshold of 100g CO_2e/kWh to make a substantial contribution to the taxonomy's climate goals.[2] Increasing this threshold to 270g C02e/kWh for gas projects with permits granted before 2030, as is proposed in the

[1] Taxonomy Regulation, available here.

[2] Thresholds based on the recommendations of the EU's Technical Expert Group on Sustainable Finance (TEG). The TEG's final report is available here, and the methodology underpinning the 100g CO_2e/kWh threshold is elaborated on in detail in the technical annex to the final report, available here (pages 206-07).

Complementary Delegated Act, would mean many energy companies would demonstrate alignment with the Taxonomy, even though their activities and transition plans would not be aligned with net zero. This in turn hinders the capacity of our members to align their portfolios with net zero, undermining the whole purpose of the Taxonomy and the substantial work that has been undertaken to develop it.

Moreover, and as noted by the Platform on Sustainable Finance, while transitional activities may be part of an economy in transition, not all activities that are part of an economy in transition are transitional activities.[3] Transitional activities in the context of the Taxonomy are clearly defined as those for which there are no technologically or economically feasible alternatives, but which demonstrate best-in-class emissions performance, do not lock-in carbon, and do not hamper the development and deployment of low-carbon alternatives. Transitional activities must also remain compatible with the goals of the Paris Agreement. Natural gas may have a role to play as a 'bridge' to support the transition of the economy. However, it cannot meet the prescribed requirements to be considered a 'transitional' activity, and its inclusion in the Taxonomy would therefore be misleading.

Any inclusion of gas within the Taxonomy would also undermine the EU's ambitions to set the international benchmark for credible, science-based standards for classifying sustainable economic activities. [4] It is our view that the proposals in the draft Complementary Delegated Act would seriously compromise Europe's status as a global leader in sustainable finance, potentially triggering a 'race to the bottom' which could dilute the level of climate ambition within emerging jurisdictional taxonomies.

Ahead of your expected decisions, we welcome your consideration of these concerns. You can rely on our continuing support in your efforts to reorient capital flows towards net zero investment.

Yours sincerely,

On behalf of IIGCC,

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[3] Platform on Sustainable Finance's Transition Finance Report, p.14

[4] China's taxonomy currently excludes gas, see here and here for more information. In addition, Russia's taxonomy has committed to maintaining the 100g CO_2e/kWh threshold for the inclusion of gas. See here for more information.