



*Employers entrusted to deliver
Sustainability Growth Innovation*

Position Paper

Input to the EU classification system for green investments (Taxonomy Regulation)

18 December 2020

Executive Summary

- **SGI Europe welcomes the Commission's determination to continue the process with the EU Taxonomy, aiming to finance the transition to a climate-neutral Europe by 2050.** SGI Europe is very supportive in setting the right framework to redirect capital flows towards sustainable economic activities. The initiative for a sustainable finance mechanism and the Taxonomy Regulation can act as an enabling tool to realise the objectives of the EU Green Deal.
- For this to be effective, **SGI Europe sees it as essential that this framework is guided by common principles that safeguard similar level of ambition across various sectors and aims for a technology neutral approach and respects the role of public undertakings**, which we fear is not reflected in its current form. It will be also important to ensure that the EU Taxonomy takes into account the maturity of the technologies and its contribution that it will make in reducing CO2 emissions.
- Furthermore, **SGI Europe deems it as highly necessary that the EU Taxonomy is fully taking into account the respected national and EU Legislations and apply them accordingly.** The key element should be to simplify the process to make sustainable and resilient projects more attractive. Indeed, a high number of the technical criteria refer to EU directives (around 20 Directives as regards the Real Estate activities sector). We believe guidance (a correspondence table) as regards their transposition into national law would much facilitate their appropriation by all actors in the EU and ensure their harmonious application.
- Additionally, in regard to the 'Do No Significant Harm' (DNSH) assessment, the principle of proportionality (in terms of company size, investment size, risk profile etc.) should prevail, in accordance with risk management practices. **SGI Europe finds it difficult to see how the proportionality principle may be applied in practice and ask to reassess this criterion as well as provide concrete guidance on the implementation of the principle.** In this regard, The European Securities and Markets Authority's (ESMA) recommendation that the Commission develops a methodology to allow a sector-coefficient to be assigned for smaller entities is an avenue that should be explored. Furthermore, the EU Commission should provide more clarity and support for the application of the taxonomy, e.g. by more explicitly naming the expectations in the due diligence on DNSH criteria and on minimum social standards.
- Overall, **SGI Europe fears that service providers and investors may lose the needed interest if the information burden is too onerous and opt for traditional funding requiring less disclosure.** Ultimately, the sustainable finance market rests on the availability of eligible assets. Therefore, the way the EU Taxonomy is designed it is risks undermining investments in sustainable and resilient projects and additionally slowing down its harmonisation with other sustainable investment strategies i.e the EU Green Bond Standards.
- From SGI Europe's point of view, due to its high complexity and its timeline of implementation, **a gradual implementation of the Taxonomy would bring about a considerable increase in market successful implementation and acceptance** and thus reorient private funds more quickly into sustainable economic activities. For instance, it should be made clear that the disclosure requirements deriving from Article 8 of the Taxonomy Regulation will only become mandatory for financial years beginning after 1 January 2022.

Only a gradual implementation will truly support an investment strategy that can facilitate a cost-efficient decarbonisation process and build up a resilient infrastructure that serve the environment, the economy and society as a whole.

In this respect, SGI Europe would like the Commission to reflect further its proposals and take on the following points:

Technical Screening Criteria for ‘Do No Significant Harm’ (DNSH)

SGI Europe has welcomed by the Technical Expert Group (TEG) and the Commission to make the DNSH criteria a key element of the EU Taxonomy to ensure that economic activities have no significant negative environmental impact. **Europe runs on Public Services and SGIs** as they have a long-standing operational tradition and a highly integrated and efficient infrastructure for decades. Their understanding of their role as a service of general interest in responding to the challenges of climate change and the environmental and social impacts has always been in a universal and an inclusive approach. Public undertakings can understand the economic actors, the essential changes linked to new technologies as well as the political and civil behaviours whilst respecting the environmental limits. As a cross-sectoral European organisation covering central and local administrations, waste management, energy, transport, housing, water, environment, telecommunications, healthcare and education, public undertakings will continue playing an important part in this transition to a sustainable future of Europe.

Therefore, SGI Europe will continue to support the Commission on this mission and reaching its climate targets within the objectives of the EU Green Deal, yet we urge the Commission to come towards our way as well. A clarification on the key element criteria needs to be simplified and where relevant national or EU legislation are applied to ensure legal security for investors. **SGI Europe fears here an unnecessary administrative burden that will potentially hinder sustainable activities and projects rather than supporting it.** It needs to be undoubtedly understandable, clear connections to existing national and EU legislations and in line with the Commission’s proposed wording to “ensure usability and proportionality” and being “easy for economic operators to use”. While such an approach is outlined in the draft Delegated Acts, it does not match the detailed criteria laid out in individual DNSH requirements.

Technical Screening Criteria for ‘transitional activities’

In Art 10.2 in the EU Taxonomy it explicitly foresees a distinct category for so-called ‘transitional activities’, that support the transition to a climate neutral economy. SGI Europe strongly believes that the current approach of the European Commission is not in line with Art. 10.2, as for example no distinction is being made between the emission thresholds for electricity generation and heat production for ‘green’ activities and for ‘transitional activities’. **SGI Europe therefore calls for the creation of a dedicated section for transitional activities in the delegated act**, with distinct criteria and thresholds from green activities. Furthermore, all activities that comply with the criteria set out in Art. 10.2 should be taxonomy-eligible under the category of ‘transitional activities’.

Energy

The Taxonomy can be a great tool to prioritise and accelerate financial investments in various energy technologies such as wind, solar, bioenergy, hydrogen as well as energy efficiency and enabling infrastructures (e.g. storage, smart grids, electric vehicles charging infrastructures). Whilst the energy sector offers a wide range from small to large-scale decarbonisation, it will be important to realise that no type of energy production is completely carbon-neutral, and it will be important to consider the whole lifecycle of energy production and compare it accurately when assessing its impacts and beneficial contribution for the energy transition. **SGI Europe underlines again that regulations should in general be technology neutral, with regards to GHG-savings and sustainability.**

Additionally, the technical screening criteria for energy should be defined in a way, that makes them realistically achievable today, if true efforts are put into the decarbonisation of energy generating activities. If criteria cannot be achieved, the objective of the taxonomy to incentivise investors and operators to decarbonise their portfolios will not work.

Life-cycle assessments

While SGI Europe supports the approach to take into account the average emissions over the life-cycle of energy generating technologies, **clarification on the exact implementation of life-cycle assessments (LCA) for electricity generation and heat/cool production is needed**, as the current criteria do not allow for an unequivocal calculation of life-cycle emissions which will be crucial for the classification of energy generating technologies. To simplify LCA, the utilisation of standard reference values should be possible, wherever they are available.

DSOs and TSOs

In regard to the DSO's perspective on P. 117, Art. 4.9 Transmission and distribution of electricity, the electricity distribution system operators play a crucial role in meeting the EU's climate and energy targets and simultaneously guaranteeing a reliable and secure supply of electricity.

DSOs **cannot choose which generation facilities they connect** since they are obliged to connect all customers (consumption and production) if the technical requirements are met. Thus, **SGI Europe objects that in the future funding opportunities for DSOs should be conditional upon criteria they cannot influence**. Thus, the **proposed criterion 2** on the calculation of CO₂-values of the connected generation capacity entails uncertainties regarding the investments in the networks. This can negatively affect security of supply and disproportionately increase the costs of guaranteeing a secure electricity supply. Furthermore, the criteria should explicitly mention Smart Meter and digital devices as key elements for the RES development.

On P. 130, Art. 4.14 Transmission and distribution networks for renewable and low-carbon gases:

Similar to electricity distribution networks, local gas distribution networks are a crucial factor when it comes to reaching the EU climate targets in a cost-efficient and secure manner. It is important that the repurposing of gas networks is acknowledged as sustainable investment.

- In the future, gas DSOs will face **higher costs for retrofitting the grids** to make them compatible with hydrogen and other low-carbon gases but also for tackling possible **methane leakages**. It is essential that investments in the gas grids that curb emissions are acknowledged as substantial contribution to climate change adaptation.
- In order to guarantee security of supply in a cost-efficient manner gas distribution grids should be allowed to connect new flexible unities through gas grid extensions. Otherwise, this could have an impact on more complex injection of renewable gases and/or the reinforcement of the grids would increase costs.
- It is also missing the explicit mentioning of biomethane as a valuable contribution to greening the gas grid.

Carbon Capture and Storage (CCS)

The Technology of CCS will continue playing an important role within the energy mix in Europe as some fossil fuel-based energy sources will remain. SGI Europe therefore thinks it as important and realistic to take CCS into account as it will support and accelerate the decarbonisation process.

Renewables

P.44, 3.1. Manufacture of renewable energy technologies

SGI Europe welcomes the development to take wind (onshore and offshore) and solar energy into the delegated acts as essential contributors for the mitigation process. The research and development process of renewables and other low-carbon technologies are frequently updated and invested in to make the production, use and recycling methods more efficient and eco-friendlier. We encourage to support this effort on an equal level to other low-carbon technologies. It is however not understandable, why the Commission chose not to exempt other renewable energy sources, in particular hydropower but also geothermal energy, from the requirement to conduct life-cycle assessments (LCA).

In **SGI Europe's view, this practice contradicts the technology-neutral approach of the Taxonomy Regulation**. Hydropower coming from low-carbon energy sources or renewable sources is sustainable electricity source and plays a major role in achieving the European climate and energy goals. It complements the increasing share of variable renewables in the European power system and provides flexibility, firm capacity and the ability to balance variable generation. The Commission should therefore apply the same criteria as for wind power or PV.

P.44, 4.1. Electricity generation using solar photovoltaic technology

The concept of "equipment and components of high durability and recyclability" is not specified and could be different in each Member State. **We suggest to not indicate targets that would be not easily verified, such as mid-long term efficiency.**

Hydrogen

P.68, Art. 3.9. Manufacture of hydrogen

SGI Europe is supporting the Commission to a zero-emission target as well as a zero-pollution environment within the energy sector. We also positively receive the effort to invest in mixed storage possibilities as this will

enhance the EU climate mitigation objectives. However, **we underline again that to have one single hydrogen solution in place is an uneconomical and unrealistic approach.**

It is therefore crucial to ensure that the production of hydrogen from a low carbon electricity mix is eligible in the taxonomy in order to enable the development of this technology.

Moreover, the proposed threshold of 2.256 KgCO₂eq/KgH₂ qualifies as sustainable only hydrogen produced from 100% renewable electricity and could even - under certain assumptions - exclude PV¹.

In order to use references already present in the taxonomy and to allow low-carbon hydrogen to fully take off and act also as a transitional tool, it is necessary to refer to the emission threshold proposed by the taxonomy for electricity, i.e. 100grCO₂/KWh, which corresponds to the threshold of 5.8 kgCO₂/kgH₂ previously included in the Technical Expert Group's report. Regarding the storage of hydrogen, we underline the important contribution of this activity within the RES production and relative development. The possibility to store hydrogen, thus decoupling its production and usage, would play a fundamental role in energy transition.

Hydropower

Concerning the DNSH-criteria, **SGI Europe would like to point out, that the sustainable use and protection of water and marine resources is already regulated under the Water Framework Directive.** All necessary requirements to reach the environmental objectives (including adequate implementation times) are laid down in the Programmes of measures and the River Basin Management Plans and then are adequately transposed into new and existing permits. Separate requirements or duplicating the water body and basin related planning and evaluation requirements onto the project level are therefore not appropriate and would result in additional costs (also no access to data for river basin wide analysis) without any positive effect on sustainability. Furthermore, the introduction of specific thresholds for hydropower generation conflicts with the principle of technology neutrality embedded in Taxonomy Regulation.

At last, at **SGI Europe we think that all types of pumped storage should be included in the category for Eligible storage (Art. 4.10).** The current wording distinguishes and encourages in § 4.10 closed-loop pumped hydropower storage, i.e. not connected to river bodies. This configuration is the least widespread in Europe, which illustrates the extremely restrictive nature of the criteria defining this category. The operation of existing pumped storage, be it closed or open loop, has revealed no particular environmental impact. Projects for the creation of pumped storage from existing reservoirs would obviously have lower environmental impacts than a project for the creation of closed-circuit pumped storage with the ex-nihilo creation of 1 or even 2 basins. Nevertheless, the mere fact that at least one of the existing basins is a reservoir located on a watercourse disqualifies these projects for section 4.10, which is environmentally unjustified.

¹ Hydrogen produced by electrolysis from electricity of exclusively photovoltaic origin would correspond to a carbon impact of 3.03 kgeqCO₂/kgH₂ Hydrogen produced by electrolysis from electricity of exclusively nuclear origin would have an impact of between 0.33 and 0.67 kgeqCO₂/kgH₂ but unless the system of guarantees of origin is extended to nuclear electricity, it will be very difficult for hydrogen producers to benefit in practice from the low carbon content of the French nuclear fleet. Sources: IPCC, ADEME, France Hydrogen

Heating and Cooling

On P. 135, Art. 4.18. Cogeneration of heat/cool and power from geothermal energy

The threshold of 100 gCO₂e/kWh is really challenging and **should be replaced by progressive criteria.**

On P. 138 a. 142, Art.4.19. Cogeneration of heat/cool and power from gaseous and liquid fuels

The threshold of 100 g CO₂e/kWh per 1 kWh of energy input to the co-generation, as proposed by the Commission, would effectively exclude gas-powered cogeneration facilities from being classified as a sustainable investment. **From the perspective of SGI Europe, the Cogeneration of heat/cool and power from gaseous and liquid fuels can only fulfil its function as a transitional activity if the generation threshold is adapted.** Otherwise, investment in cogeneration facilities, which on the long run can be operated with renewable gases and hydrogen, is disincentivised. Cogeneration facilities are a key for reaching the more ambitious 2030-climate-goals as they present a more efficient means of utilising gaseous and liquid fuels for heat and energy supply. These fuels will remain an integral part of our energy system for the near future until sustainable and low-carbon gases are more readily available. Until fossil gaseous and liquid fuels can be replaced by more sustainable alternatives, the cogeneration of heat/cool and power allows for substantial CO₂-savings through the efficiency gains compared to separate heat/energy generation: Cogeneration utilises the fuel used to a degree of up to 90%. In comparison, the separate generation of energy and heat/cold on average only reaches a fuel utilisation of around 55%.

In addition, the thresholds for cogeneration for a “Substantial contribution to climate change mitigation” and the DNSH-criteria for mitigation in the annex on climate change adaption are inconsistent: While the threshold for a substantial contribution is “per kWh” while the DNHS- threshold in Annex II is not. **From a consistency standpoint, the DNSH-threshold should be adapted to “270gCO₂e/kWh per 1 kWh of energy input to the co-generation”.**

Finally, the natural gas plants should be classified in a separate way than liquid fuels plants. The NO_x reduction targets should be better achieved on a European point of view, even considering possible thresholds. Energy transitions should be supported by hydrogen and gas turbine cogeneration plants.

On P. 130, Art. 4.15. District heating/cooling distribution

SGI Europe believes that the contribution to climate change mitigation can be given by adopting best efficiency solution and best available technologies. The waste to energy (WtE) plants play an important role for the circular economy and for the heat production or distribution within the main European cities. We propose to include in this section of the document, the WtE with thermic recovery connected with district heating grids. A classification of networks based on primary sources used for the production of heat and cool could be proper.

Bioenergy

P. 114-117, Art. 4.8. Electricity generation from bioenergy

SGI Europe would like to underline that bioenergy that is fulfilling requirements for sustainability and GHG-savings according to the Renewable Energy Directive (RED) should be classified as a sustainable activity, and not as only transitional. Bioenergy is classified as a renewable energy source in other international frameworks, and also opens up for negative emissions (BECCS). Requirements on biofuels should follow RED as regards GHG-savings, and the 20 MW-limit not to administratively over-burden small

operations. The RED directive outlined that biogas used for the production of electricity, heating or cooling starting production on 1 January 2021 and until 31 December 2025, shall be considered sustainable. **SGI Europe therefore suggest changing the description of the activity to a taxonomy-compliant sustainable activity.** We also underline that, in some cases, CSS technologies are still not easily applicable. Moreover, regarding the DNSH criterion "Pollution prevention and control", we point out that the rules of Annex II of the Regulation (EU) 2019/1009 are still not applicable

On P. 140, Art. 4.20. Cogeneration of heat/cool and power from bioenergy and on P. 148, 4.24. Production of heat/cool from bioenergy

On pollution prevention and control criterion, we underline that the rules of the Annex II of the 2019/1009 Regulation are still not applicable. **We suggest to take into account the national laws on fertilisers.** Moreover, with regard to the "Transition to a circular economy", we point out that the biomass needed by the cogeneration plants could lead to a lack of material for the plants dedicated to the treatment of the organic waste, putting under risk this activity.

Transport

The transport sector is responsible for almost ¼ of all Green House Gas emissions (GHG) in Europe. Urban transport is responsible for about 23% of these total CO2 emissions from transport and this number is still rising. About 70% of CO2 emissions in urban transport come from passenger cars and 27% from goods transport vehicles. **Public transport already is a good alternative with low or less CO2 emissions.** This shows the importance of cities in fighting the increase in emissions in transport and the need to include public transport in a successful modal shift campaign that includes not only rail, but metros, buses, trams and soft mobility modes. SGI Europe therefore welcomes to see that modal shift has been kept in the EU Taxonomy Delegated acts that will facilitate investment in various mobility projects. **Vehicles operating on biofuels fulfilling GHG-savings and sustainability requirements according to the RED should be accepted.** Hybrid should be reintroduced to broaden the scope and allow for transition in technologies where needed. Indeed, requirements for Zero-emission collective vehicles (6.3 Urban, suburban and road passenger transport) should be gradual (2020 – 2025) as in the TEG approach.

Buildings

In the EU, the building sector is the biggest energy consumer and source of 36% of the EU's CO2 emissions. Renovating existing buildings has been identified in the renovation wave as key element decrease the sector's CO2 emissions. According to Annex 1 of the Regulation, a new building shall only make a significant contribution to climate change mitigation if the primary energy demand, which defines the energy performance of the building resulting from the construction, is at least 20 % below the threshold set in the national measures transposing Directive 2010/31/EU of the European Parliament and of the Council on nearly zero energy buildings (NZEB). **The energy efficiency must be proven by an "Energy Performance Certificate" (EPC).**

In practice, this requirement could be relevant but would differ between Member States depending on different levels of ambitions for NZEB within the stipulated cost optimal method. **The higher requirement for primary energy demand would in many cases result in uneconomical solutions, deviating from cost-optimal levels.** In some Member States the effort required to achieve this standard depends on whether a district

heating supply with a low primary energy factor is available, i.e. on the location of the building, depending on how national primary energy factors are constructed.

The legislator should rather focus on the reduction of CO2 emissions within the framework of a neighbourhood and energy system and benefit orientation in order to achieve the climate protection goals in the building stock. This objective would also be in line with recital 23 of the draft regulation, which states that measures should be based on the overall energy performance of buildings and on related greenhouse gas emissions and embedded carbon ("Those technical screening criteria should be based on the potential impact of those activities, on the energy performance of buildings and on related greenhouse gas emissions and embedded carbon").

Another problem is that **future adjustments to the national standard** would automatically lead to significant tightening of the threshold, especially if the adjustments are made at different speeds in the individual member states. Companies in particularly ambitious countries would then be systematically disadvantaged in the competition for investors and capital providers. **We advocate setting the threshold value for the lowest energy buildings. (NZEB) of the respective country as the standard, rather than NZEB-20%.**

Proof of energy efficiency should be possible on the basis of the energy performance certificates. **A Certification of the energy performance certificates has no added value** and would only establish a further bureaucratic measure.

P. 211, Art. 9.1. "Professional services related to energy performance of buildings and industries"

Furthermore, the sum total of suggested requirements for buildings risks creating a non-proportional administrative burden. **SGI Europe would like to emphasise that when respecting the relevant national or EU legislation, we believe this should be sufficient enough in many cases.**

The additional criteria for new buildings larger than 5,000 sqm lead to additional costs and are partly incompatible with national standard setting.

From SGI Europe's point of view, it is not necessary to introduce tests such as air tightness, thermal integrity or Global Warming Potentials tests (GWP). These requirements are not prescribed in the EPBD. They do not always have an added climatic value and would lead to an increase in the cost of building.

Proof of energy efficiency should be possible on the basis of the energy certificates. Certification of the energy certificates has no added value and would only establish a further bureaucratic measure.

SGI Europe asked in particular to simplify the criteria for construction of New Buildings (7.1) as follows:

- **The Calculation of the life cycle Global Warming Potential (GWP)** for buildings > 5000 m², should only be introduced gradually, since this is a demanding requirement involving an extensive development of data and systems, especially for later phases of the life cycle.
- It should be possible to calculate the GWP of the entire life cycle using a simple, recognised method in order to ensure an appropriate cost-benefit ratio.
- **Climate adaptation assessment requirements and plans** (according to Appendix E) should be limited to fewer topics directly related to the individual building (such as protection for over-heating),

and in other aspects (such as flooding and wildfires) be dealt with through national regulation and municipal plans.

- **The requirements for circular building design and construction techniques** should be introduced, but only gradually.
- **Restrictions for building on forest land** (apart from high-biodiversity) should be limited to regions where forest is scarce.

Art. 7.7 Acquisition and Ownership of buildings

For Acquisition and Ownership of Buildings (Art.7.7) Energy efficiency requirement should not be limited to EPC class A, since this does not have a common definition among Member States. Furthermore, the acquisition of buildings exclusively with EPC class A does not make sense, since in many Member States only a negligible proportion of the total building stock is in this condition.

This reduces the incentive to purchase non-renovated buildings and subsequently to renovate them.

The reference to Energy Performance Certificate class A (EPC A) as the sole screening criterion is not suitable or appropriate for the following reasons:

- The new threshold is a radical shift from a relative to an absolute number. A relative number like the top 15% - which is also used by the Climate Bonds Initiative - is a moving target. Like a best-in-class approach, the top 15% gets narrower over time as more energy- and CO₂-efficient properties are built. It puts property owners in a position to dynamically manage their green portfolio. It is their responsibility to ensure that their green liabilities always exceed their green assets.
- Moreover, the EPC A label varies massively between European countries in terms of primary energy demand. An EPC A label per se does not indicate the "greenness" of a property within the EU. It is not suitable for comparing the "greenness" of buildings across Europe, e.g. in Germany the residential EPC B is 50-75, in Belgium 100-200, in Poland 60-120, in Sweden 64-85 kwh/sqm. From the perspective of green bond investors, the heterogeneity of this threshold carries the risk of greenwashing.

SGI Europe advocates basing the thresholds on the top 15% according to the Climate Bonds Initiative. As simultaneous options, buildings could alternatively meet the criteria for new buildings according to 7.1 (=NZEB) or for renovation according to 7.2 within a five-year period from acquisition.

Water and Waste-Water

For SGI Europe, the quality and hygiene standards for water and waste-water has top priority and we are fully supporting the relevant EU Directives such as the Water Framework Directive and its daughter directives and the Drinking Water Directive that protect these fundamental natural sources. DG FISMA's coherence check with existing sectoral legislation should have been recognised in previous established work and established that the recently adopted European Drinking Water Directive provides realistic and feasible requirements for the efficiency and transparency of water supply.

P.153, Art. 5.1. Construction, extension and operation of water collection, treatment and supply systems and Art 5.2. Renewal of water collection treatment and supply systems

In regard to **leakage rates**, as specified in Art. 4 of the new Drinking Water Directive, the EU Commission must determine an average “EU-wide water leakage-rate” three years after the implementation of the directive. For leakage rates that are higher than the established threshold, Member States are then obliged to present an action plan within two years. The regulation applies to water suppliers covering at least 10 000 m³ per day or a population of 50,000 people or more. **SGI Europe agrees with these procedures of the DWD as it takes into account investments already made in infrastructure and thus also in resource protection.** It also recognises the freedom of Member States to use other methods than the ILI. SGI Europe believes it is therefore not acceptable nor legally sound to only refer to the ILI, as this would deviate from the new DWD provisions.

Furthermore, the guarantee of water supply and waste-water disposal on site is largely determined by the structural framework conditions prevailing on site, which cannot be influenced by the company. Accordingly, the specific energy consumption between the companies can fluctuate considerably due to the prevailing framework conditions, as regards infrastructure, topography, climate, service density and other regulatory conditions.

SGI Europe is quite critical towards setting limit values for energy consumption per cubic meter of water to 0.5 kWh per m³ billed/unbilled. The energy demand is influenced by various factors such as the size of the plants, structural circumstances and geological conditions. Therefore, SGI Europe advises against a general and very concrete limit value. At least, this requirement should be modified for services with less favorable conditions as regards density, topography etc. Overall, the priority is to supply the population with clean drinking water that meets hygienic requirements. As warm water is more appropriate for purification and cleaning purposes than cold water, the benchmark for the drinking water supply is not the energy efficiency but the health protection of the population – which is especially relevant in times of the COVID-19 pandemic.

p. 154, art. 5.2 renewal of water collection, treatment and supply systems

The proposed reduction in **energy consumption of at least 20%, is not acceptable as a base line, as it should be adjusted with respect to the need of introducing additional water treatment following updated legislation, such as energy demanding filtration.** In view of the different local, infrastructural and topographical conditions, it is not a sensible limit value for water supply. The proposed criteria are **in the view of SGI Europe unsuitable for making a statement about the sustainability of a drinking water provider.**

In addition, the current level of energy consumption must be taken into account when setting criteria. The higher the current sustainability level, the more difficult it is to make any further progress. The 20% reduction criterion is a disproportionately heavy requirement for companies that already score well.

Regarding the ILI, further to SGI Europe’s remarks under 5.1, it is also important that the current level of leakage of water providers is taken into account when setting criteria. The higher the current sustainability level, the more difficult it is to make any further progress. For this reason, the demand for a 20% reduction of leakage rates compared to the ILI Index of 1.5 is neither realistic nor feasible.

P. 156, Art 5.3 Construction, extension and operation of waste-water collection and treatment and P. 158, Art.5.4. Renewal of waste-water collection and treatment

For similar reasons as above SGI Europe is critical toward a “net zero energy use” requirement for the front-to-end waste-water system on an annual basis. Also, this would need to be more clearly defined.

The waste-water sector is not just any sector, it is a heavily regulated (mostly public) sector because of its very significant societal importance for a clean environment. **Energy policy should not hinder the primary task of treating waste-water**, which would lead to negative effects on public health, a clean environment and biodiversity.

The energy consumption of Waste-Water Treatment Plants (WWTPs) is relatively high. In the short term it is not easy to reduce the energy consumption and options are limited. However, **a number of possibilities do exist to make the energy consumption more sustainable through the use of renewables such as biogas and wind, sun and aquathermal energy.** With the help of these renewable energy sources WWTPs can even become energy neutral. Perhaps this can be taken up as an alternative to strict energy efficiency targets.

In regards to the **energy efficiency standards, SGI Europe’s members in the waste-water treatment sector are maintaining their sovereign duties (waste-water and sludge treatment) and are generally already seeking to design energy-efficient processes.** An improvement of energy efficiency by 10 % cannot be demanded across-the-board, as operators – which have been very efficient so far – can only achieve these improvements with considerably higher costs or are otherwise unable to achieve them at all. Therefore, efficiency efforts that have already been made and implemented must also be considered.

SGI Europe is therefore underlining to the DG FISMA to avoid setting unrealistic requirements, that do not follow existing and specific EU legislative files of the European Commission as this could lead to less investments in waste-water treatment plants. In the short term it is not easy to reduce the energy consumption, but with the help of the renewable energy sources (biogas and wind, sun and aquathermal energy) WWTPs can even become energy neutral. Perhaps this can be taken up as an alternative to strict energy efficiency targets.

In addition, **SGI Europe wants to underline that the introduction of stricter environmental requirements concerning e.g. nitrogen removal or advanced treatment of micropollutants, would inevitably lead to higher energy consumption.** This is also the case when new pollutants appear - or in higher concentrations - in the waste-water influent that would require additional treatment measures.

In regards to **methane emission, SGI Europe would like to highlight to the TEG that there are currently are no data or comprehensive studies available on methane emissions in waste-water treatment, hence no statement can be made** on whether and how energy efficiency measures will affect methane emissions. Before DG FISMA makes a statement within the framework of the Taxonomy Regulation, a coherence check should be carried out considering in particular the Urban Waste-Water Directive.

We propose therefore a change of the DNSH-criteria for the environmental objective towards “Transition to a circular economy”, because Waste-Water Management and sewage sludge utilisation can in the near future utilise technologies such as methane pyrolysis, avoiding emissions and transform them into clean hydrogen (< below Taxonomy criteria) . Contributing to the logic of a circular economy while providing clean hydrogen and solid carbon (graphite) as a valuable by-product for growing needs of renewable energy system.

Waste and Circular Economy

SGI Europe welcomes the fact that the TEG has mentioned the waste and circular economy in the objectives and activities as an industry with remaining investment gaps and a need for action. The waste and circular economy has great potential for a rapid, effective and eco-efficiently reduction of GHG emissions. Progress and climate protection measures in this sector varies widely in the EU Member States. SGI Europe would like to propose the following points in order to better realise the climate protection potential of waste and recycling management:

SGI Europe criticises the non-inclusion of thermal waste utilisation, Waste-to-Energy (WtE), and has not considered it as a sustainable economic activity within the Taxonomy Regulation. The European Commission has acknowledged in its Communication COM (2017) 34 on “the role of Waste-to-energy in the circular economy” (Section 5) that WtE has a role to play in the circular economy. **The WtE acts a complementary tool for the recycling sector, acting as a sink for the unwanted legacy substances that contaminate the materials cycle.** It is a safe and reliable recycled material market is one of the pillars for the transition to a Circular Economy. In the Technical Expert Group’s report (TEG report) it is furthermore stated that the incineration of non-recyclable, hazardous waste does not constitute significant harm. Many waste materials can only be safely disposed of by incineration. The context of the corona crisis with large amounts of contaminated protective clothing and household waste arising from infected or quarantined persons make this terrifyingly clear. **With regard to such types of waste, energy recovery through thermal utilisation is part of sustainable waste management and should also be taken into account in the taxonomy or it should at least be included as a transitional activity, as in the Climate Bonds Initiative.** It has to be considered that some member states or regions in member states still have consistent lack of capacity in waste to energy facilities and for them it will be more difficult to divert waste from landfills. A legal analysis, conducted by PwC concluded that waste incineration of non-recyclable waste for energy recovery, fulfilling R1 energy recovery criteria, fully complies with the waste hierarchy and should therefore be considered an environmentally sustainable economic activity.

SGI Europe therefore calls upon the TEG to further discuss and consider this matter in order to positively consider Waste-to-Energy within the framework of the EU Taxonomy Regulation. We hope that the Platform can positively assess Waste-to-Energy as taxonomy-eligible under the delegated acts to come, which will focus on circular economy objectives.

In Art. 13 provides that “an economic activity makes a significant contribution to the transition to a circular economy if it (...) reduces **waste incineration** as far as possible”.

Several Member States have no political alternative to the incineration of sewage sludge, particularly when valuable materials (including phosphorus) are also meant to be recovered from the sludge. The only alternative consists of large landfill sites being made available for dried sewage sludge. This is, however, not a viable option. Consequently, the use of sewage gas (as a by-product) should be considered as a renewable energy source when used for electricity generation or when blended into a gas network. **SGI Europe proposes to place sewage sludge incineration as a sustainable economic activity that makes an essential contribution to the transition to a circular economy.**

On P. 162, art. 5.5. Collection and transport of non-hazardous waste in source segregated fractions

Only a correct and efficient management of all waste flows can mitigate the impacts related to waste management. For this reason, is also necessary to include among the activities capable of contributing to the mitigation of climate change:

- separate collection and transport of hazardous waste.
- the collection of residual unsorted waste. Correct management of these flows is complementary to that of non-hazardous differentiated waste.

On P, 163 Art. 5.7 Anaerobic digestion of bio-waste

It is not clear the reason to introduce an obligation of 90% minimum input of bio-waste feedstock for bio-waste treatment plants. **This threshold should be established according to the context and economic feasibility.**

On P. 165, Art. 5.8. Composting of bio-waste

SGI Europe suggests to integrate, whenever it is technically and economically feasible, composting with anaerobic digestion, in order to combine material recovery with energy recovery, improving the energy balance of the plant, reducing emissions of CO₂ and applying the waste hierarchy as defined in COM (2017) 34 final.

On P. 166, Art. 5.9. Material recovery from non-hazardous waste

The criterion of “at least 50 %, in terms of weight” should be flow-specific and not general. For some flows, **50% is a very low threshold and would be a sign of poor recovery while for other flows it is a result very hard to achieve.** Furthermore, the recovery capacity of a plant depends not only on its efficiency, but also on the quality of the incoming waste. Finally, the scope should be extended to any waste flow, including hazardous ones.

On P. 167, Art.5.10. Landfill gas capture and utilisation

Furthermore, the burning of landfill gas as part of landfill gas capture and utilisation should be considered as contributing to climate change mitigation under the taxonomy. When permanently closed landfills age, the concentration of methane in the gas emitted decreases significantly, which and makes the further utilisation of that gas no longer economically viable. Therefore, the only feasible option is to burn the gas. As long as this process is in line with the relevant emissions standards, it should be eligible under the taxonomy.

Social Aspects

SGI Europe positively receives the inclusion of a minimum social safeguards within the criteria of the four conditions that an economic activity must meet in order to qualify as environmentally sustainable. This is already a good starting point and lays a foundation to develop a definition of a Social Taxonomy, which we regret to see is not foreseen before 2024. **Therefore, having the social aspects in the mitigation and adaptation is good, yet it must be quickly improved. SGI Europe is asking to accelerate this process already in the work of the current new Technical Working Group (TWG) for the other environmental objectives, in which SGI Europe is a permanent observer.** When developing a sustainable and resilient plan for Europe, SGI Europe has always urged the Commission to keep the three dimension for a just transition in mind: the Economic, Environment and Social aspect. In the current context of the outbreak of the COVID-19, strengthen these aspects will be vital and timely. A transition as foreseen by the EU Green Deal can only take place if the social dimension is included.

In sum, **SGI Europe can only support the Commission on this path to create a sustainable EU Taxonomy and in return we ask to take the view of essential public undertakings, whose business models are often motivated by social sustainability, into account by supporting them to facilitate their actions to become taxonomy approved.** Nevertheless, like with the environmental taxonomy a social one must be practicable, transparent and SME-friendly. It should set incentives for improvements rather than creating administrative burdens which would only make sustainable behaviour be perceived as a nuisance.