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EAPB draft position on Taxonomy pack for feedback for environmental goals 3 – 6

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General comments

The European Association of Public Banks (EAPB) welcomes the Sustainable Finance Platform's initiative to flank the EU Taxonomy on environmental criteria 1 and 2 (Climate Change Mitigation and Climate Change Adaptation) with guidance on how to include environmental goals 3 – 6 (sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control and protection and restoration of biodiversity and ecosystems).

In this context, the prioritisation for objectives 3-6, the definition of substantial contribution types (Section 5) as well as possible approaches seem very useful.

Regarding the [Call for feedback by the Platform on Sustainable Finance on the draft report on preliminary recommendations for technical screening criteria for the EU taxonomy](#) (Goals 3-6) we would like to take the opportunity and give General feedback on the draft report as mentioned on p. 499 as well as Specific comments in a second part (cf. p.2).

1

Whilst we would like to congratulate the EU Platform on Sustainable Finance and the European Commission for their ongoing work on considering the expansion of the Taxonomy to DNSH, Social or as in this case Environmental criteria 3-6, as is mandated by Article 26 (2a and 2b) of the Regulation, we do have full understanding for the Platform on Sustainable Finance's tight deadlines to provide the European Commission with guidance on these and other subjects. However, as an interest association representing 30 members in and outside the European Union, we faced significant limitations in the ability to gather the necessary input, that would lead to the high-quality responses necessary to answer consultations that are of paramount importance to our members. With consultations starting end of July to beginning of August and having deadlines set from early to mid of September, we have received consistent feedback to which, despite willingness to contribute, most of our members cannot dedicate sufficient resources due to the holiday season.

Nonetheless, our members remain committed to continued engagement with the Platform on Sustainable Finance and the European Commission, which is reflected in the very high level of interest we have all received from our members.

At this point, we would also like to underline the delays in the Delegated Acts (for ex. on the [Sustainable Finance Disclosure Regulation](#) i.e. the [DA on the EU Taxonomy](#)) that have been postponed from Dec 2021 to Q2 2022. We would therefore kindly advocate to prolong the implementation period for the affected financial institutions in accordance with the above-mentioned delays. It is important to stress that commitment to implement should always be met by the necessary timeframes to allow for a smooth and thorough integration of these sets of regulations, especially with regards to the degree of technical complexity our members will face in the process.

As in previous consultations on the topic of Sustainable Finance, we strongly ask for targets to be aligned with the proportionality principle and EU-wide accepted measures while trying to avoid complexity and administrative burden.

On a more specific note, and with regards to the Draft Report, EAPB fully supports the SFPs proposals to clarifying the criteria to substantially contribute to objectives 3 – 6 in more detail and would in particular like to contribute to Section 5 of the Draft Report on defining substantial contribution regarding the manufacturing of wood and its life cycle.

Specific comments

In the following, we would like to address the

- **Wood production cycle and forest management**

What the EAPB Secretariat is missing is a more extensive consideration of wood, especially in light of the recent events concerning illegally logging in the EU (referred to as 'Forest Gate'). In its initial proposals, the TEG had extensively looked at the roles of wood in climate goals 1 and 2. However, the detailed analysis ended before the afore mentioned events took place. In the Technical Annex, the TEG did (p. 40 - 51; p. 93 - 97) address the role of wood in light of these revelations. No elaboration was given, but the recommendation was made that the topic of wood "after the Forest Gate" needs to be analysed more extensively.

On Page 159 of the [TEG Taxonomy Technical Report \(June 2019\)](#) the TEG acknowledges under 'Next Steps' that:

"The following issues are not fully addressed in this round of forest Taxonomy criteria. However, they may provide additional mitigation opportunity and should therefore merit additional consideration by the Platform on Sustainable Finance:

- *The forest Taxonomy sets out criteria and thresholds for forest management activities that apply up to the forest gate. No different criteria are proposed depending on the ultimate use of the timber produced. This is for the pragmatic reason that many forest managers and owners do not know in which supply chains their products will end up. In principle however, the Taxonomy recognizes the holistic mitigation potential of forests and wood beyond the forest gate (e.g. substitution effect). At present climate benefits beyond the forest gate are expected to primarily be captured through the construction/building, energy and manufacturing sectors. **The platform should improve the holistic consideration of forests' mitigation potential across their entire value chains, and across all sectors of the economy.***
- *The current proposal does not capture or address all possible sources of emissions taking place in the forest during the lifetime of a forest project or activity (e.g. fuel use by machinery). The platform should further explore broadening the current criteria to account for individual improvements to be eligible as individual investments towards meeting the overall forest activity criteria, i.e. the substantial mitigation objective."*

2

Finally, in the last recommendation the report reads (p.159):

- *The Platform (on Sustainable Finance) should further explore potential end-user issues for investors and financial institutions, including potential challenges that may arise in relation to associating capital expenditures or revenues that can be tagged or screened through the current criteria set for forest management/land use activities".*

This has not been done by the SFP as of yet.

The SFP considers wood only as freshly harvested wood (virgin wood) or as a processed product (furniture). Here, of course, the goal - in line with the waste hierarchy - is reuse, repair or reprocessing. But the question that arises is what happens to wood at the end of its life cycle? Unfortunately, in the most recent publication this aspect is not considered. **This is all the more concerning because wood - at the end of its life cycle - can be used for sustainable energy production.**

With regard to the manufacturing plants of wood, the question that arises is: **Is the operation of a (Cogeneration Heat and Power) CHP - plant based on waste wood for the substitution of coal-fired power plants in line with the EU taxonomy?**

As it is currently defined, as long as wood comes from sustainably managed forests, it is said to be CO2 neutral.

In the **SFP Technical Screening Criteria** (Draft Report) there are indications and interpretations that this definition is supported:

P. 33 -> (..) “As a result, by substituting activities exerting higher environmental pressures there is a **substantial reduction of the environmental pressure**. (..) Activities that have a low environmental impact and have the **potential to substitute high-impact activities**, therefore significantly reducing the overall pressure that is exerted on the environment”. (P. 34 Impact based approach).

P. 44-46 states that (..) “An economic activity shall be qualified as contributing substantially to the transition to a circular economy, including waste prevention, re-use and recycling, where that activity:

(j) *minimises the incineration of waste and avoids the disposal, including landfilling, in accordance with the principles of waste hierarchy. (..)*”

In the **annex to the SFP**, further guidance can be found in 13.8 (p. 977ff):

(..) “The activity's non-hazardous waste feedstock originates from one, or multiple, of the following:

Non-hazardous waste fraction originating from dismantling and depollution activities from end-of-life products,

As well as on p. 979:

(..) “The activity converts or enables the conversion of waste into secondary raw materials that are suitable for the substitution of virgin materials in production processes.

Further in the annex, under 3 ‘Energy’ (→ Electricity generation from bioenergy for protection and restoration of biodiversity and ecosystems) following reference (which unfortunately only refers to wood “before the Forest Gate”) can be found:

3

p. 410 (f) biomass is qualified if it:

“(..) meets the minimum sustainability requirements for the relevant biomass type as specified in Directive 2018/2001 (the recast Renewable Energy Directive, RED). (..)”

In this RED II Directive, in Annex IV on p. 97 (Rules for calculating the contribution of biomass fuels and the corresponding comparative value for fossil fuels to the greenhouse effect), there is a reference to wood chips from industrial waste.

In conclusion, it seems there is evidence that burning CO₂-neutral end-of-life wood is compliant under the Waste Hierarchy Taxonomy if a reduction in pressure on the environment can be achieved via substitution. However, more information is needed on replacing i.e. coal-fired power plant with wood-fired CHP plants in order to be Taxonomy compliant.

* **The European Association of Public Banks (EAPB)** gathers over 30 member organisations which include promotional banks such as national or regional public development banks and local funding agencies, public financial institutions, associations of public banks and banks with similar interests from 17 European Member States and countries, representing directly and indirectly the interests of over 90 financial institutions towards the EU and other European stakeholders.