Cefic welcomes EU efforts in mainstreaming sustainable finance and positioning it as a precursor to achieving European and global climate ambitions

As a sector "indispensable to Europe's economy"[1], the European chemical industry is an industry of industries, providing building blocks on which modern societies are built; our materials are found in all industries, from agriculture to construction, food and beverages, energy, healthcare, machinery, textiles, hospitals and transportation.[2] To maintain European competitiveness while contributing to the sustainable transformation, the chemical industry requires significant investment – up to hundreds of billions of euros – meaning access to finance is critical.

To mobilize finance towards the most sustainable technologies, the future Taxonomy must consider interconnected "industrial ecosystems"[3] and reflect the real functioning of industrial value-chains, beginning with raw materials and ending with final products.

In the development of the first two Taxonomy delegated acts, it is understood the final report and technical annex of the Technical Expert Group on Sustainable Finance (TEG) will be referenced. In this regard, Cefic wishes to comment on the following:

1) **Inconsistent application of EU ETS benchmarks and NACE codes**

The development of the technical screening criteria is a highly complex and technical exercise which highlights the need for specialized stakeholder participation in the drafting of delegated acts. For this reason, the future Platform on Sustainable Finance must include experts from the relevant industrial sectors reflected in the TEG report. Cefic commends the work of the TEG; however, there are several inconsistencies in the application of EU ETS benchmarks and NACE codes. Such inconsistencies create uncertainty over Taxonomy-eligible investments, and can contribute to the stagnation, or stopping of, existing investments. This creates considerable risk and compromises decarbonization efforts.

For instance, in the manufacturing of ammonia, a value of 1,3tCO_2/tAmmonia is utilized but the correct EU ETS benchmark is 1,619tCO_2/tAmmonia[4]. Additionally, for the manufacturing of carboxylic acids, where the EU ETS methodology cannot be directly applied, the respective criterion shall be measured according to feedstock. Regarding NACE code usage, the manufacture of industrial monocarboxylic fatty acids – acid oils from refining (20.14.31) has been inconsistently

[1] *European Commission Communication on the European Green Deal*

[2] *Cefic Mid-Century Report – "Molecule Managers"*

[3] *European Commission Communication on a New Industrial Strategy for Europe*

[4] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02011D0278-20140114&from=EN

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applied throughout the text and without justification. Additionally, some NACE codes, such as those for aldehydes (20.14.61) and fatty acid oils (20.14.31), are missing.[5]

2) Thresholds must be gradual, flexible and inclusive

Cefic recognizes that the ambitious thresholds presented in the TEG report aim to capture the "best performance in the sector or industry"[6]; however, too high thresholds undermine transitional and innovative efforts currently being undertaken by the chemical industry. In this regard, thresholds must be flexible and considered on a gradual and inclusive basis.

Cefic welcomes that electricity use for chlorine manufacturing reflects EuroChlor data and calculations[7], but notes that also attaining a 100gCO_2e/kWh or lower average carbon intensity of the electricity is unachievable considering current electricity data in Europe. This comment is also valid in the electricity use for hydrogen manufacturing.

3) Further development of chemical recycling

Cefic welcomes recognition of the manufacturing sector's role in the development of a circular economy for plastics. We support the inclusion of chemical recycling in the TEG report; however, in the material recovery from non-hazardous waste, only mechanical and separate collection are Taxonomy-eligible. Chemical recycling complements other plastic recycling options and is capable of processing contaminated and/or mixed plastic waste which would otherwise end up in incineration (with or without energy recovery) or landfill.

Chemical recycling technologies allow use of plastic waste as feedstock to produce new chemicals and plastics, including those used in high-quality applications such as food contact and food packaging, as well as medical. Additionally, chemical recycling has the potential to address the so-called legacy chemicals and substances of very high concern (SVHC) that can be present in end-of-life plastic.[8] In this regard, Cefic supports the transboundary shipment of wastes, including plastic waste that will be recycled, to ensure a stable, abundant and affordable feedstock which provides industry with the ability to scale up innovative solutions such as chemical recycling technologies.[9]

4) Manufacturing of plastics in primary form

Cefic also considers the role of virgin plastic materials. The proposed metrics only apply to the production of plastics in primary form only through mechanical/chemical recycling or via renewable feedstock; however, virgin plastics materials are used by sectors including automotive, aviation, construction and renewables, among others, and substantially reduce GHG emissions. Certain plastic applications are enablers of a low-carbon economy, including in the automotive sector. For instance, high-quality thermoplastics in the automotive industry result in weight

[5] Please note that with respect to this consultation and for concision, these examples are illustrative and not comprehensive.

[6] *Taxonomy: Final report of the Technical Expert Group on Sustainable Finance*

[7] https://www.eurochlor.org/wp-content/uploads/2019/04/12-electrolysis_production_costs.pdf

[8] https://cefic.org/app/uploads/2020/03/Cefic-Position-Paper-on-Chemical-Recycling-1.pdf

[9] https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/7567584-Waste-shipments-revision-of-EU-rules-/F511170

reduction (50% less than similar components made from other materials), allows for less fuel consumption (25-35% improvement in fuel economy) and enhances passenger safety. Virgin plastics significantly increase energy performance, reduce costs and facilitate the overall transition to a low-carbon economy.

5) Manufacturing of other basic organic chemicals

Chemical companies are often linked via diversified logistics chains (rail, ship or pipeline). Highly innovative and efficient, the chemical industry provides materials to downstream customers in the form of by-products from one chemical process to be used as the starting material for another chemical plant. In this regard, recycled chemicals feedstock should be included alongside biomass and industrial bio-waste in the manufacturing of other basic organic chemicals for its contribution to climate change mitigation and in the transition to a circular economy.

6) Consistent application of the principles of Better Regulation and existing EU legislation

As the chemical industry is highly regulated, both at an EU and Member State level, it is important the Better Regulation Guidelines are followed in order to ensure legislation remains predictable, workable and evidence-based. Cefic welcomes the work of the Regulatory Scrutiny Board, the increased use of the Evaluate First principle and the transparency gained in the comitology process and supports that these principles are carried through in the development of delegated acts.[10] In the same vein, delegated acts must consider existing EU legislation (EU ETS, RED II, REACH, waste legislation etc.) in order to avoid overlap, gaps and conflicts in applicability.

Cefic continues to support the European Commission and is ready to positively contribute to the development, analysis and review of technical screening criteria with evidence-based recommendations.

While contributing to this consultation we are very aware we are experiencing unprecedented times, with events none of us have lived through before. Cefic endeavors to maintain a high standard in our responses to public consultations. While we are confident that this contribution adequately reflects our views at the current time, we recognize that public and private sector responses to the crisis and its aftermath, both in the EU and globally, have the potential to significantly affect industry's operating conditions. When investing in the future, industry, governments and institutions will also have to continue to ensure investments align with the policy targets of a climate-neutral Europe. We look to the European Commission to undertake the appropriate assessments and to include these wider considerations in the future framework that will be developed, with the objective of ensuring the EU's post-crisis attractiveness as a place for investing in the industrial transformation required to achieve EU Green Deal objectives.

[10] https://cefic.org/app/uploads/2019/02/Better-reguation-Stocktaking_BetterREgulation_PP-2018.pdf

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About Cefic
Cefic, the European Chemical Industry Council, founded in 1972, is the voice of large, medium and small chemical companies across Europe, which provide 1.2 million jobs and account for 16% of world chemicals production.