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OPEN LETTER

From a patchy to a comprehensive approach to the EU taxonomy on sustainable finance:
Recognising the key enabling role of European electrical equipment and industrial technologies and their contribution to climate change mitigation and the environment

The latest report¹ by the International Panel on Climate Change (IPCC) is clear: the time for action is now. Limiting global warming will require major transitions in the energy sector. This will involve a substantial reduction in fossil fuel use, widespread electrification, improved energy efficiency, and use of alternative fuels (such as hydrogen). In an earlier report², the IPCC issued a dire warning: “*Human-induced climate change is causing dangerous and widespread disruption in nature and is affecting the lives of billions of people around the world.*” It is also an urgent call for accelerated action and rapid, deep cuts in greenhouse gas emissions.

The EU has acted by adopting ambitious climate goals. Still, sustainable finance falls significantly short of the investment needs required to realise the climate and environmental goals of the EU. The EU taxonomy will hopefully be a game changer, by not only directing private finance to truly environmentally sustainable activities and avoiding potential greenwashing but also accelerating the climate transition that we desperately need for our societies. In this race against climate change, it is of utmost importance to identify and consider all enablers and levers that could support our decarbonization objectives.

We believe that technology has a role to play and should be rightly recognised in the EU taxonomy as a key enabler of both environmental protection and climate change mitigation. To ensure that the necessary investments occur over the next decades, we must give clear recognition to the crucial contribution of our technologies. These include: electrical equipment enabling the electrification and decarbonisation of end uses; energy efficient solutions optimising data centres; variable speed drives and motors treating water and waste more efficiently; equipment and solutions automating industrial processes. We must not lose sight of the massive investments in enabling technologies that are

¹ Second part of the AR6 report AR6 Climate Change 2022: Mitigation of Climate Change — IPCC.

² Second part of the AR6 report <https://www.ipcc.ch/report/ar6/wg2/>.

required in these sectors over the coming eight years to achieve a 55% greenhouse gas emission reduction by 2030.

Despite some good progress, **we believe the EU taxonomy still does not adequately address the role enabling activities play in facilitating lasting and effective decarbonisation.**

In particular, the contribution of electrical equipment, mechanical engineering technologies, and industrial solutions is not properly recognized. They should therefore be addressed as a top priority by the EU Taxonomy:

- **Electrical equipment:** The share of electricity in the final energy demand will increase from 42% in 2030 up to 72% by 2050 to comply with our 2050 objectives. Electrical equipment is playing a key role, which the leadership of the Platform for Sustainable Finance decided to overlook in the report published on March 30; despite the fact it was part of the initial draft adopted by the General Assembly of the Platform. In addition, the given draft proposal failed to recognise the critical function that electrical equipment will increasingly play at end-use level to manage energy efficiency and the integration of renewable energy, putting very restrictive conditions on eligibility (such as requiring combined functionalities, connectable or automated and power or energy metering).
- **Power & cooling equipment in data centres:** The EU agreed to set up a carbon neutrality objective for data centres by 2030. It will not be achievable without further deployment of technologies which reduce the consumption of data centres and enable them to use more low carbon energies. However, the proposal fails to recognise the contribution of those technologies.
- **The mechanical engineering industry is necessary for the sustainable transformation of other industries.** This is recognised in a recent study by the Boston Consulting Group which confirms that more than 80% of greenhouse gas emissions from industry can be prevented with technologies made by the mechanical engineering industry³. We recommend that the Commission develops a dedicated section on machinery, reflecting the specificities of the sector.
- **Industrial products:** Direct electrification of industrial processes will need to reach 37% in 2030 and 46% in 2050 in order to achieve carbon neutrality by 2050. Electrification-related investments must increase accordingly from €5 billion/year to €17 billion/year⁴. Additionally, demand-driven automation technology has the potential to drive huge energy savings (15-20% in average), which have not been yet recognized by the EU Taxonomy.

In order to ensure the timely recognition of enabling technologies in the EU Taxonomy, we therefore call for the adoption of the following amendments by the end of the year:

1. **The adoption of a section about electrical equipment**, first included in the draft report by the Sustainable Finance Platform (section 2.4), which regrettably was not included in the published version of the report. In particular, such a section must ensure the qualification of circuit breakers, switchgear, switchboards, panelboards, or control centers, which can enable power or energy metering devices. In addition, the section shall explicitly add electrical motors, variable speed drives and electrical servo drive systems.
2. **The addition of a section on ‘Manufacture of energy efficiency equipment for industry and data computing and communication activities’** within that given amendment as per the proposal of the association Orgalim in its submission to the Platform’s consultation in September 2021⁵ to include industrial automation equipment and solutions and ancillary energy efficient solutions in data centre.
3. **The inclusion in the Delegated Acts on the environmental objectives of the section recognizing the key enabling role of industrial equipment and solutions and manufacturing of machinery**

³ For Machinery Makers, Green Tech Creates Green Business, Boston Consulting Group, VDMA, 2020.

⁴ From „Sustainable paths for EU increased climate and energy ambition“, Enel Foundation, Compass Lexecon, Enerdata.

⁵ <https://orgalim.eu/position-papers/environment-orgalim-response-consultation-platform-sustainable-finance-eu-taxonomy>.

- a) Section 2 on manufacturing activities in the final Platform report fails to include any enabling activities for the DA Taxo4. This includes sections 2.11 to section 2.14 as well as the entire section 6 as included in draft Platform report from August 2021. Again, this is a missed opportunity to recognise the enabling role of technologies while end-use sectors, using the same technologies, are able to qualify.
- b) Due to new innovations and technological leaps in development, there must be technology-neutral open-list criteria for enabling technologies. As a concrete example for the environmental target on Circular Economy, an open-list criteria should be assessed case by case.
- c) We call on the European Commission to include these activities in the final delegated acts on the environmental objectives, with the relevant technical screening criteria.

We believe such additions are critical to the competitiveness of the European industry, as well as to an orderly energy transition in key sectors of the economy.

We would be very honoured to meet with you in order to further explain why such inclusions are important in a short-term perspective.

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