Institute for Energy Economics and Financial Analysis
ieefa.org

staff@ieefa.org

05 October 2023

The Secretariat
9th Floor, Multi-Storey Building
Bangko Sentral ng Pilipinas
A. Mabini Street, Malate
Manila 1004

Philippines Sustainable Finance Taxonomy Guidelines: Consultation Document

The Institute for Energy Economics and Financial Analysis (IEEFA) is an independent energy finance global think tank that examines issues related to energy markets, trends, and policies. Headquartered in the United States, our research covers markets globally with particular focus on Asia Pacific, Europe and the Americas.

IEEFA supports establishing Sustainable Finance Taxonomy Guidelines for the Philippines market that are globally interoperable, credible and high-quality under the Philippine Sustainable Finance Roadmap.

Our responses to selected consultation questions in the consultation document are outlined below.

We welcome the opportunity to discuss further issues and participate in setting future standards. If you have questions about the views raised in this letter, please contact us at sreynolds@ieefa.org.

Sincerely,

Sam Reynolds

IEEFA Gas/LNG Lead, Asia

- *What design considerations do you consider most important for the Philippines Sustainable Finance Taxonomy Guidelines? (page 25)*

IEEFA supports the specified design criteria but emphasizes the importance of credibility, which can be challenging to ensure in a principles-based taxonomy. Without scientific thresholds typically included in activities-based taxonomies, there is a significant risk that users overinflate claims about the climate mitigation and adaptation potential of their activities to access sustainable pools of capital. In the energy sector, this may be particularly true of technologies that lack demonstrated track records of achieving emissions reduction targets. IEEFA's comments below aim to address credibility risks within the current, principles-based iteration of the taxonomy guidelines.

- *Do you have any suggestions regarding the list of prohibited activities in Appendix 1? (page 33)*

IEEFA supports the list of prohibited activities in Appendix 1 and the alignment of these activities with the Philippines Sustainable Finance Guidelines and Sustainable Finance Framework. IEEFA is specifically pleased to see the inclusion of "exploration, production or transportation of fossil fuel, fossil-fuel power-generation related projects" in the list of prohibited activities.

However, greater clarity is needed on key definitions, such as "prohibited," "excluded" and "eligibility," as well as how these terms relate to the taxonomy's traffic light approach. Are the listed prohibited activities excluded only from achieving a "green" classification—i.e., they may still be eligible for a "transitional" designation? Or are they automatically designated as "red"? To best achieve climate mitigation objectives, IEEFA recommends including or strengthening language that specifies that all fossil fuel-related exploration, production, transportation, and power generation projects be designated as "red."

This will eliminate confusion, specifically around whether natural gas-related activities might qualify under "transitional" pathways. While some may promote the carbon dioxide (CO_2) emissions benefits of natural gas, the Intergovernmental Panel on Climate Change (IPCC) has clearly stated that achieving Paris-aligned, 1.5C targets requires deep, immediate reductions in both CO_2 and non-CO_2 greenhouse gas (GHG) emissions. Methane, the main component of natural gas, is a GHG with more than 80 times the heat-trapping capacity of CO_2 over a 20-year period.

Natural gas should therefore not be considered sustainable or transitional, as it risks locking the Philippines into a high-emitting future. It is important to note that the existence of a sustainable finance taxonomy does not prevent excluded activities from accessing conventional sources of finance.

- *Is a 5-year period to allow for potential harm to be remediated appropriate? What sectors may require more than 5 years to remediate the harm? Should activities that cause any significant harm be automatically excluded? Would a questionnaire be a viable interim solution pending global efforts to simplify DNSH criteria? (page 42)*

IEEFA is unclear regarding the enforcement of such horizons and the consequences of failing to achieve specified timelines. In our view, such a timeline for remedial actions may only anchor claims for taxonomy users aiming to qualify for sustainable finance under the current guidelines. This presents a threat to credibility of the "Do No Significant Harm" (DNSH) principle.

The remedial timeline effectively permits activities that cause significant harm over a transitional period of 5 years. This already extensive period could be much longer in practice. If harmful activities qualify and receive sustainable financing under the current taxonomy guidelines but ultimately fail to complete remedial actions within 5 years, there appears little recourse to mitigate harm. In this sense, the timeline for remedial activities seems highly vulnerable to credibility risk.

For example, developers of natural gas-fired power plants paired with abatement technologies like carbon, capture, and storage (CCS) may aim to access sustainable finance under current guidelines. This may lead to claims that CCS can be completed in time to qualify for remedial status.

However, J. Ma et al. notes, "According to the construction period of successful large-scale CCS projects in advanced countries, it takes 5–10 years from site selection to the completion and operation of a CCS project."[1] The Global CCS Institute notes that large, complex CCS projects "may take a decade to progress from concept to operation."[2] All CCS project sites have unique geology, requiring bespoke solutions and extensive development timelines.[3]

In the event that the power plant becomes operational and CCS is not completed within 5 years, there exists material risk of ongoing harm to climate mitigation objectives.

IEEFA recommends that remedial actions to address significant harm be implemented within 1 year of the activity's commencement. This shorter timeframe requires a significantly greater burden of proof for the viability of potential remedial actions, since assessing the viability of longer-term remedial actions at early stages of development can be challenging. Shortening timeframes will ensure that remedial actions are readily deployable and realistic, and IEEFA believes this will ultimately improve the credibility of the DNSH principle.

The logic is similar for environmental adaptation objectives. If a power plant is built in a coastal area vulnerable to storm surges, a 5-year remedial timeline to address physical risks may be too long. Addressing adaptation risks within 1 year will strengthen the credibility of the objective.

- *Do the proposed three essential criteria provide enough guidance for taxonomy users to make their assessments of compliance? (page 44)*

IEEFA appreciates that the current iteration of the Sustainable Finance Taxonomy Guidelines takes a principles-based approach, and that more scientific guidelines and activities-based approaches will accompany future versions.

As it stands, however, the criteria above are too vague for taxonomy users to accurately and uniformly assess compliance. Without scientific standards on the amount of GHG avoidance or

[1] Ma, Jinfeng, et. al. Carbon Capture and Storage: History and the Road Ahead. March 12, 2022.
[2] Global CCS Institute. Global Status of CC 2022. 2022.
[3] IEEFA. Norway's Sleipner and Snøhvit CCS: Industry models or cautionary tales? June 14, 2023.

reductions required to qualify under the taxonomy guidelines, activities with only trivial emissions benefits may seek to access sustainable capital.

For example, hydrogen and its derivatives, such as ammonia and methanol, have been touted as transitional solutions in wide-ranging applications. However, hydrogen produced using fossil fuels—currently 96% of hydrogen produced globally[4]—still has significant climate change impacts.[5] Moreover, blending hydrogen ammonia (NH_3) produced from fossil fuels in power generation facilities has been shown to yield only marginal emissions reductions, and can increase nitrous oxide (N_2O) emissions.[6]

As noted, a principles-based approach "requires the taxonomy user to use its own judgement" when assessing compliance. However, without standards for emissions reductions and other criteria, high-emitting activities may still qualify under the taxonomy guidelines.

- *Which Options for defining the Green and Amber categories above would be considered most suitable in an initial phase of the taxonomy and why? (page 49)*

IEEFA believes that a "dynamic pathway" approach would be most suitable for the current phase of the taxonomy guidelines. IEEFA supports language to classify transitional activities such as, "moving towards a low-carbon pathway aligned with the Paris Agreement" and "activities do not involve further carbon lock-in," as these provide more detailed standards while remaining compatible with a principles-based taxonomy. Regarding criteria around "interim time-bound solutions," please see IEEFA's above discussion of the 5-year timeframe. Lastly, regarding solutions that "reduce GHGs compared to an alternative," specific reduction targets will ultimately be necessary to ensure interoperability and credibility.

- *Do you believe that the proposed sustainable finance taxonomy adequately addresses the risks associated with unsustainable investments and activities? If not, how could the taxonomy be improved to better address these risks? (page 64)*

The inclusion of carbon capture, utilization, and storage (CCUS) activities in the list of "enabling sectors" (page 38) poses a risk to the credibility of the taxonomy guidelines. IEEFA has reported that global CCUS projects have often failed to meet lifetime CO_2 capture performance targets.[7] Moreover, IEEFA has found that nearly 75% of CO_2 captured globally is used for enhanced oil recovery (EOR),[8] which enhances oil production rate from declining fields, leading to greater direct and indirect GHG emissions.

CCUS activities must demonstrate proof of concept and scientific viability, and must be subject to careful scrutiny and oversight before qualifying as "sustainable." Without science-based standards to assess the practical impacts of CCUS technologies on climate mitigation, such activities may be subject to greenwashing and credibility risk.

---

[4] International Renewable Energy Agency (IRENA). Hydrogen – Overview. 2021.
[5] IEEFA. Blue hydrogen: Not clean, not low carbon, not a solution. September 12, 2023.
[6] Bloomberg New Energy Finance (BNEF). Japan's Costly Ammonia Coal Co-Firing Strategy. September 28, 2022.
[7] IEEFA. The Carbon Capture Crux. September 2022.
[8] Ibid.

For this reason, IEEFA recommends removing CCUS as an “enabling sector” from the current principles-based iteration of the taxonomy guidelines. While CCUS activities may contribute to climate mitigation objectives in high-emitting sectors, qualification as “sustainable” will require scientific thresholds that are not currently suitable for a principles-based taxonomy. Importantly, CCUS projects could still access conventional sources of finance despite removal as an “enabling sector” in the current iteration of the taxonomy guidelines.