THE CONVERSATION

Academic rigour, journalistic flair

Tomasz Makowski/Shutterstock

Natural gas is a fossil fuel, but the EU will count it as a green investment – here's why

Published: February 4, 2022 3.00pm GMT

Shashi Kant Yadav
Doctoral Researcher in Environmental Regulations, University of Surrey

The European Commission has decided that power plants burning natural gas can be considered generators of green energy. This means they can count as sustainable investments along with nuclear power. The commission's technical rules on sustainable finance classify a list of sustainable economic activities in the EU. Under these guidelines, economic activities that may help EU countries meet their energy needs while shifting from coal power can be considered sustainable.

As soon as the rules were made public in late December 2021, a chasm emerged. Austria threatened to sue the commission, arguing that classifying natural gas investments as sustainable will breach the EU's legal obligation to reduce its greenhouse gas emissions 55% by 2030, compared with 1990 levels. Denmark, Luxembourg, and Spain flayed the rules in an open letter, saying they would divert investment away from renewables. Spain also announced that it will set its own rules that weed out investments in the natural gas sector.

Eastern and central European countries, such as Hungary, Poland and Romania, along with France and others backed the technical rules as practical and implementable. The UK, US and other major economies meanwhile are keeping a close eye on what the EU classifies as sustainable – it could inform their own investment decisions.

Preventing or enabling greenwash?

The EU claims that the rules "help investors…by providing a common language and uniform criteria" to determine "which economic activities may be considered environmentally sustainable".

Guidelines are indeed necessary to prevent financial greenwashing. Without regulatory criteria determining what qualifies as sustainable, businesses can easily dress up their activities as more environmentally benign than they really are to attract investment.

The EU needs more investment in low-carbon industries to meet its 2030 target. But the rules only oblige companies operating in the EU to disclose the proportion of their expenditure and turnover coming from sustainable activities. Mandatory disclosures allow, in theory at least, environmentally conscious investors to make informed decisions.

The basic framework of the guidelines was adopted in June 2020. It states that economic activities must contribute towards one of the six EU environmental objectives, including climate change mitigation. It must not impede any other objective and it must comply with minimum social safeguards, such as respect for human rights.

But the EU took until December 2021 to finalise the technical rules defining sustainable investments. Gas-dependent eastern European countries, pro-nuclear France and oil firms lobbied to get natural gas and nuclear listed in the guidelines.

To break the deadlock, a compromise was reached. Gas power plants which secure a permit by 31 December 2030 and emit greenhouse gases equivalent to 270g of CO_2 for each kilowatt-hour (kWh) of electricity will be labelled as sustainable. Firms operating such plants must provide a plan demonstrating they will completely shift from natural gas to low-carbon fuels or renewables by December 31, 2035.

Five chimneys tower above an industrial facility webbed with pipes.

The rules are intended to replace coal power with gas-fired plants. Factory_Easy/Shutterstock

How green is natural gas?

The European Commission claims that including electricity generated from natural gas in its green investment guidelines will help the EU meet its 2030 targets for decarbonising power as coal-dependent EU countries will switch to natural gas, lowering their overall emissions.

But some experts involved in drafting the technical rules highlighted that all future energy generation in the EU must be under the threshold of 100g of CO_2 per kWh, not 270g, if the bloc is to honour its commitments under the Paris Agreement and help limit global warming to well below 2°C. Some argue that listing electricity generated from natural gas as sustainable violates the EU's own legal principle of doing no significant harm, as such a move could divert investment from renewables to gas.

Spain, Denmark and Luxembourg claim that the guidelines unwittingly legitimise what they were adopted to fix in the first place: the greenwashing of investments. And while gas power companies must detail how to switch to renewables or low-carbon sources, the rules do not impose legal sanctions on them if they fail to do so – or if their future commitments fall flat.

The prospect of rampant misuse of the rules leaves investors with no legal certainty that their money would only fund sustainable activities. The Institutional Investors Group on Climate Change, a global consortium with 50 trillion Euros (£42 trillion) of assets under management, berated the commission for frustrating investors with green ambitions.

The EU investment guidelines have attracted attention from multinational corporations, regulators, and international banks. This is partly as the US and UK have yet to develop a comprehensive guide on sustainable finances. Although China has had rules in place since 2015 which largely help Chinese banks determine what qualifies as sustainable investment when they lend to corporations, it is working to harmonise its guidelines with the EU's.

The EU investment rules are set to pass later in 2022. They could stir up legal battles, as courts hold countries to account for not reducing emissions fast enough.

Since the guidelines are expected to set a global template for measuring the sustainability of investments, the greenwashing of investments in dirty fuels is likely to continue unabated.
