

6 May 2021

Position paper the Confederation of Swedish Enterprise – The Taxonomy environmental objectives 3-6

The Taxonomy file is important for the Swedish business community and followed closely by the Confederation. The work with criteria for the Taxonomy's environmental objectives 3-6 is currently in an quite early stage. As these criteria will be applicable for many of the Confederation's members, we by this position paper want to highlight our identified key messages at this stage.

Sustainable growth is crucial to achieving the green transition

Much still needs to be done to achieve the goals of the Paris Agreement and the EU Green Deal and to move forward to a climate-neutral society. There is broad consensus that substantial investment, both public and private, will be essential for the success of the green transition. The Confederation of Swedish Enterprise is in favour of initiatives that will support investments contributing to sustainable development. The importance of promoting circular solutions and increased resource efficiency in achieving this societal transformation cannot be emphasised strongly enough. Swedish companies are at the forefront of sustainability efforts and in many respects act as global role models.

The importance of including the business community

By the end of 2021, the European Commission intends to present its proposal for the technical review criteria for environmental objectives 3 - 6 in the upcoming taxonomy. In light of the widespread criticism of the draft delegated acts related to environmental objectives 1 and 2 presented at the end of 2020, it is vital that business is genuinely involved in the work now being done, such as that through the Sustainable Finance Platform. Otherwise, there is a risk that the legitimacy of the regulatory framework, and the real environmental and climate benefits it could bring, could be further damaged and make it more difficult for the Swedish business community to achieve this green transition.

Increased administrative burden

Collecting, processing and quality-checking data for reporting according to the Taxonomy will require extensive resources and system support for reporting businesses. Many smaller enterprises, which will not be directly required to report under the Taxonomy Regulation, will be indirectly affected as suppliers and subcontractors to those businesses that are obliged to report. Therefore, it is important that the benefits of the information required and the impact of reporting it exceed the costs of collecting it.

Reporting requirements should therefore concentrate on information that will actually be used by investors and other financial market participants. Concepts and definitions should, as far as possible, be consistent with those used in existing financial reporting frameworks. Disclosures that do not follow directly from the Taxonomy Regulation should be avoided. Given that, in parallel with the development of the Taxonomy, the Commission will be revising existing reporting requirements (NFRD and SFDR) to include information on whether an activity is taxonomy-compatible and to what extent, ensuring harmonisation and/or no duplication of reporting requirements will be important.

The Confederation of Swedish Enterprise also believes that there should be an impact assessment made of the administrative implications (cost, time) for an operator to report on all six objectives set out in the Taxonomy.

Implementation of reporting requirements for environmental objectives 3 - 6

For environmental targets 3 to 6 of the Taxonomy, reporting requirements are expected to come into force as of 1 January 2023. For companies obliged to report, this means that the financial year starting 1 January 2022 (or later in 2022 in the event of a broken financial year) will be the first year for which data must be reported.

It is far from clear that the exact reporting requirements or technical criteria for environmental objectives 3 - 6 will be established by the end of 2021/2022, so it could be difficult, even impossible, for companies to provide the data that may be needed for reporting retrospectively. This in turn may affect the quality of information and reduce its comparability over time. The introduction of the reporting requirement should be delayed until 1 January 2024 at least, two years after the presentation of the final proposal.

The Taxonomy should not be linked to other regulations

It is likely that the Taxonomy could be used in the context of other EU regulations, such as those affecting banks' corporate lending. Future regulations may also build on, or be related to, the Taxonomy. Were the use of the Taxonomy in other regulatory frameworks to be considered, and the Taxonomy thus has significantly wider potential influence, it is of particular importance that the assessment criteria are fair and promote environmental and climate benefits and sustainable development. However, the Taxonomy is as yet incomplete and untested.

The Confederation of Swedish Enterprise therefore opposes the integration of the technical assessment criteria into other current or future legislation. For example, the Taxonomy should not set limits on the use of funds for the green transition within the framework of the EU Recovery Fund. Such an extension would give the Taxonomy a disproportionate influence on what could be considered sustainable.

A systems perspective - the whole value chain must be taken into account

The green transition needs to take a systems perspective, taking account of the whole value chain to prevent it being sub-optimal. This is particularly important when developing the criteria for circularity, as the circular economy relies on different sectors interacting to reduce waste and to develop new circular material, product solutions and circular business models. When setting criteria for the circular economy, synergies and opportunities to increase circular flows between different sectors and actors need to be taken into account. For example, the generation of large amounts of waste by one sector - due to its production requirements - need not be considered as a negative if the same waste can act as a resource for other sectors. The same logic would apply in cases where waste is an inevitable outcome in one sector, but where that sector supplies materials or products needed for meeting other environmental objectives. Therefore, the role and potential of sectors in the circular economy must be taken into account when setting criteria and the entire value chain must be considered in order to promote a truly circular transformation of the economy.

The taxonomy must promote innovation, stimulate new technologies and encourage investments in transformation

A forward-looking approach to taxonomy will be essential for mobilising the capital required for financing the transformational investments that can lead to dramatic change for entire industries. Furthermore, the development of new technological solutions will be a prerequisite for achieving the climate transition. There is an obvious risk that this type of financing of necessary investments will not be covered by the Taxonomy and thus will be viewed as unsustainable.

An example of this can be found in environmental objectives 1 and 2, where sustainable activities for the ICT sector are restricted to only two areas, data centres and data-driven emission reduction opportunities. A large part of the emission reduction potential enabled by digital solutions - such as the digital infrastructure essential for data transmission and the digital solutions to promote sustainable development - will thus fall outside the Taxonomy.

Fossil-free energy supply is crucial to achieving the green transition

The electrification of society is a key part of the solution of meeting the Green Deal. In Sweden alone, electricity use could double by 2045 compared to current levels. A cost-effective and delivery-secure electricity system for Sweden from a 2045 perspective will require extensive reinvestment in all existing hydro and nuclear power. It is therefore a concern that there is a risk that these two fossil-free power sources, which together account for almost 80% of current Swedish electricity production, could be classified as unsustainable in the Taxonomy.

This would send a signal to electricity producers not to invest more in either hydro or nuclear power. Those who would continue to do so would be impacted by an increase in capital costs. In addition, the flexibility of large-scale hydropower is essential for the continued efficient deployment of renewable, weather-dependent wind and solar power.

The taxonomy risks contributing to Swedish climate-smart production being seen as less green

A further consequence, there is a risk that those companies and industries that rely on Sweden's virtually fossil-free electricity mix for their production may be perceived as less sustainable. As a result, large parts of Swedish industry and the ICT sector would lose part of what has been a competitive advantage over their international competitors. This could result in increased emissions globally.