

2021-04-06

The Confederation of Swedish Enterprise's preliminary views, revised draft DA Climate taxonomy

Overall views:

- The overall picture is that the proposal for the design of technical criteria for the climate-related sections of the taxonomy has been adjusted in a way that is seen as positive when compared with the proposal presented in November 2020.
- In particular, this applies to parts of the proposal that link to our energy supply, which are central to our ability to address climate change and safeguard our competitiveness.¹
- Despite this, a number of challenges and problems remain linked to the current proposal, both overall nature and on specific technical criteria. The fact that politics, rather than science, is now so clearly characterising what - according to the regulations - contributes to a sustainable society poses deep problems for its credibility as whole.
- However, it is obvious that the importance of the design of the taxonomy regulations is of increasing importance. A clear example of this is that it is now evident that the taxonomy will be linked to - for example - the EU Recovery Fund.
- The introduction of the reporting requirement for the climate remains set for 1 January 2022. This is unfeasible, given how the process has dragged on and the delegated act has yet to be adopted. Companies must be given more advanced warning than this if they are to be able to collect and manage the data in question.
- It is a concern that the burning of natural gas - which gives rise to significant CO₂ emissions - is now no longer to be classified as green simply during a transitional period; instead, the taxonomy will classify it as long-term sustainable. This clearly demonstrates how politics, not science, is shaping the design of several parts of taxonomy.
- Greenwashing the use of fossil fuels such as natural gas, capable of producing extensive greenhouse gas emissions, within a regulatory framework that aims to define what is and is not sustainable could seriously damage our ability to cope with climate change. The significance

¹ The need for a sharp increase in electricity use, and thus even more extensive investments in the Swedish electricity system in order for Sweden to cope with climate change, has been further strengthened during the past quarter.

The main reason for this is the (very encouraging) investments presented recently by LKAB (fossil-free iron) and H2GS (fossil-free steel). These constitute extensive industrial sustainable investments that will require large amounts of fossil-free electricity if they are to be realised. Together, these two investments are estimated to contribute to an increased electricity demand of 70 TWh annually basis, which corresponds to around half of Sweden's current annual electricity consumption.

of this, now that other parts of the world will be developing their own taxonomies in the light of the EU's efforts, cannot be underestimated. In other words, it is an extremely effective way of undermining the credibility of the planned regulations.

- The Confederation of Swedish Enterprise believes that only fossil-free energy should be classified as sustainable in the taxonomy.
- It is unfortunate that nuclear power, which - according to the Commission, the IPCC and the IEA - is a crucial element of the solution to allow us to cope with climate change, is not included in this act, but instead is handled separately. Nuclear power would have needed to be included to demonstrate a genuinely technology-neutral approach that also takes into account the system perspective of a sustainable energy supply.
- According to a recent report from the JRC (Joint Research Centre), nuclear power can be included in the taxonomy. The analysis does not show any research-based evidence that nuclear energy does any greater harm to human health or the environment than the types of generation already included in the taxonomy.
- In conclusion, it is important to remember that this latest version is only a revised draft. It remains to be seen how the final proposal, expected to be presented on 21 April, will look. However, it cannot be ruled out that the process will be further delayed in view of the considerable tensions that exist between Member States over the view of a number of key parts of the taxonomy, not least those surrounding natural gas and nuclear power.

Hydroelectric power

- The proposal has made a positive step for large-scale hydroelectric power, but it is still failing to be fully technology neutral.
- Nowadays, references to existing EU legislation such as the Framework Water Directive and the Species and Habitats Directive are included, with regard to texts on DNSH ('Do No Significant Harm') and the various environmental objectives. This is helpful and was not present in the previous proposal. However, there are still examples of where the criteria go beyond existing legislation, which is not desirable.
- Solar, wind and hydropower are all examples of renewable energy sources. However, it remains the case that in order for hydroelectric power to be classified as sustainable the requirements, for example linked to life cycle emissions, are more demanding than those applying to solar and wind power. The proposal is thus not technology neutral.
- The lack of a system perspective on electricity supplies is still evident. The balanced capacity of hydroelectric power is an important enabler for the deployment of intermittent renewable energy in the form of wind and solar power in northern Europe. It is therefore highly unfortunate that this important insight is not recognised.

Electricity network

- The expansion of, and investment in, electricity networks are crucial for the electrification of our society and for the green transition. The

Confederation of Swedish Enterprise is critical of excluding the local and regional grid levels, which accounts for around 65% of the Swedish electricity grid. We should therefore return to the original wording that was included in the proposal in November last year.

Bioenergy and biofuels linked to the transformation of the transport sector

- Overall, there has been a positive move on the wording on bioenergy and its management.
Electricity generated from biomass is no longer classified only as 'transitional' in the taxonomy as was the case in the previous proposal; it is now classified as 'long-term green'.
- It remains a problem that the criteria for activities relating to bioenergy continue, in some cases, to go beyond what has been agreed in the Renewable Energy Directive.
- From a transport sector perspective, the proposal continues to have 'exhaust pipe emissions' as a criterion for measuring emissions from vehicles. This will continue to undermine the Swedish strategy for the transport sector's climate change efforts, which are largely based on increased use of biofuels.
- Whether or not the production of biofuels is classified as sustainable in the revised proposal is difficult to interpret and will require further analysis.

The forestry industry

- The forest and the forest raw material industries are needed for us to address the green transition.
- There have been significant and relevant improvements over the previous proposal. Forestry is now back in the taxonomy as a sustainable activity, and the proposal now takes into account that forestry is a national competence.
- A significant change is that the definition of 'improved forest management' has been replaced by 'existing forest management'. This has been important in order for today's Swedish forestry to be classified as a sustainable activity.
- The technical criteria refer to the national rules more than before, which is also positive.
- However, there are details where further analysis is required before the assessment can be completed. There is also still some ambiguity and concern over how certain parts and details should be interpreted and what effects they may have.
- In the revised proposal, the Commission also refers to the forest strategy they intend to present at the end of 2021. This may lead to adjustments to the sustainability criteria and thereby change the conditions for Swedish forestry.