

Taxonomy Position paper: The Confederation of Swedish Enterprise

Sustainable growth is vital to the success of the green transition

Much more needs to be done if the objectives of achieving both the Paris Agreement and the EU's Green Deal - as well as the transition to a climate-neutral society - are to be met. There is broad consensus that extensive investments, from both the public and private sector, are needed in order to achieve the green transition. The Confederation of Swedish Enterprise is fully supportive of initiatives being taken to support investments that can contribute to a sustainable development.

A closed process that threatens the legitimacy of the regulations

The importance of the taxonomy's technical screening criteria being developed in an open and transparent manner with broad support and collaboration from relevant actors cannot be overstated. It is essential that the framework really promotes climate benefit for it to be regarded as legitimate and be effective.

The Taxonomy Regulation was adopted on 1 July 2020. However, the crucial elements - the decisions on the technical screening criteria that determine what is classified as sustainable (or not) – will be decided by delegated acts. The Confederation recognises that the procedure for delegated acts allows for increased flexibility and greater insights from expert groups. However, this approach also runs the risk of creating a more closed process, where the Member States as well as the European Parliament have limited opportunities to influence the design of the final legislation.

The importance of including business

In 2021, as a next step, the European Commission will present its proposal for technical screening criteria for environmental objectives 3 - 6 in the taxonomy. Given the extensive criticism directed at the delegated acts at the end of 2020, it is crucial that the business community is genuinely involved in the work now being done, for example through the Platform for Sustainable Finance. Not involving the business community risks further undermining the legitimacy - and the true environmental and climate benefits - of the regulations.

An increased administrative burden

For those companies that are subject to reporting requirements, collecting, processing and quality-reviewing data in accordance with the taxonomy will require extensive resources and system support. Many smaller companies, not directly required to report under the taxonomy, will be indirectly affected due to their roles as suppliers and subcontractors to those companies that are subject to reporting. It is important that the usefulness of the information and the impact of the reporting exceed the costs associated with them for those companies.

Reporting requirements should therefore focus on information that is actually used by investors and other participants in financial markets. Concepts and definitions should, wherever possible, be aligned with those already used in existing financial reporting frameworks. Information that does not directly flow from the Taxonomy Regulation should be avoided.

The introduction of the reporting requirement for environmental goals 1 and 2 must be postponed to 2023

The reporting requirement for environmental goals 1 and 2 in the taxonomy applies from 1 January 2022. For those companies subject to the reporting obligations, this means that, for the fiscal year that began on 1 January 2021 (or later in 2021, in the event of a non-calendar financial year), will be the first for which data is to be reported. Given that neither the exact reporting requirements nor the technical screening criteria for environmental objectives 1 and 2 have yet been established, it may prove difficult or impossible for companies to retrospectively produce the data that may be needed to fulfil the reporting requirements. This is therefore not acceptable. It could affect the quality of information and impair future data comparability over time. The introduction of the reporting requirement should therefore be postponed until at least 1 January 2023.

The risk of contagion is clear - taxonomy should not be linked to other regulations

It is conceivable that the taxonomy may be used within the framework of other EU regulations, for example those that affect banks' corporate lending. It is likely that further future regulations may also be based on the taxonomy. With regard to this potential influence, it is therefore pivotal that the taxonomy's screening criteria are fair and benefit the climate.

Ultimately however, it is important to recognise that, to date, the taxonomy is incomplete and untested. The Confederation of Swedish Enterprise therefore opposes integrating the technical screening criteria into other current or future regulations that have different purposes. For example, the taxonomy should not set limits on the use of the funds for the green transition within the framework of the EU Recovery Fund. Such an extension would mean that the taxonomy would exert a disproportionately large influence over what is considered to be sustainable.

A platform for collaboration between the business community and the financial industry

It is clear that the taxonomy - and the European Commission's action plan for sustainable growth - entails both new requirements and opportunities for Swedish companies and their investors. We also note that investors are generally positive to the proposal presented, while the business community is less enthusiastic. The Confederation will strive to provide a platform for increased collaboration and contribute to an open conversation between the business community and the financial industry on this important topic.

Our views on the European Commission's draft Delegated Regulation on technical screening criteria presented in November 2020 supplementing Regulation (EU) 2020/852:

Taxonomy can threaten the progress on climate change and Swedish competitiveness

There is a concern that the proposed taxonomy may have a negative impact on our ability to achieve climate goals and will hit the competitiveness of Swedish companies hard, thus affecting our prosperity. It is clear that the taxonomy does not align with, or support, the Swedish strategy for fossil freedom. The current proposal lacks technology neutrality and a systems perspective.

- *The taxonomy must promote innovation, new technology and transitional investments*

It is essential that the taxonomy takes a forward-looking attitude if it is going to help to mobilise the capital necessary to finance investments capable of driving transformative changes throughout entire industries. Furthermore, the development of new technical solutions is a prerequisite if we are to cope with climate change. There is an obvious risk that the financing necessary for this type of investments will not be covered by the taxonomy and will thus be deemed unsustainable.

- *Electrification through hydropower and nuclear power is crucial for Sweden to phase out the use of fossil fuels*

The increased electrification of society is crucial if we are going to succeed in reaching the EU's goal of climate neutrality. Our assessment is that Swedish electricity use will need to grow by at least 60 percent by 2045. A cost-effective and delivery-secure electricity system with a 2045 perspective presupposes extensive reinvestments in all existing hydropower and nuclear power generating capacity. It is therefore worrying that there is an obvious risk that these two fossil-free sources of power - which today together make up almost 80 percent of Swedish electricity production - might be classified as unsustainable in the taxonomy.

Such an outcome would send signals to electricity producers not to invest further in hydropower and nuclear power. Those who would still choose to do so are likely to be affected by increased capital costs. The capacity of large-scale hydropower to adapt to demand is also key to the continued efficient expansion of renewable weather-dependent wind and solar power.

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

There is a considerable risk that companies and industries that currently rely on Sweden's fossil-free electricity mix in their production may be perceived as somehow less sustainable. As a result, large sections of Swedish industry would lose some of what had been a competitive advantage over their international competitors. Globally, this would lead to increased emissions.

- *Biofuels are disadvantaged - can hit the transport sector's transition*

Biofuels can play an important role in the transition to a climate-neutral society. These are key for Sweden to be able to effectively phase out the use of fossil fuels in the transport sector, which today accounts for around one-third of our total CO₂-emissions. It is therefore understandably worrying that the taxonomy disadvantages biofuel use.

- *The importance of the forest for the green transition*

The forestry industry and forest-based raw materials are needed for us to deliver the green transition. A set of rules for encouraging climate benefits should be designed in such a way that they stimulate the reduction in emissions that occurs when forest-based products replace fossil-based ones. It is therefore very unfortunate that the taxonomy can classify the sustainable Swedish forestry industry as an unsustainable activity.