

The Swedish Balance Commission warns of far-reaching negative consequences of the EU Taxonomy

About the Balance Commission

The Balance Commission (Balanskommissionen) consists of seven Swedish companies, Holmen, Lantmännen, SCA, Södra Skogsägarna, Ellevio, Fortum and Boliden. The business philosophy of the member companies is to build a new, sustainable and green Sweden and via the Commission contribute to the debate about how we can achieve a sound and healthy balance between growth and enterprise development on the one hand, and protecting the environment on the other hand. The work done by the Commission is headed by former Ministers Lena Ek (Center Party) and Anders Sundström (Social Democrat Party). Official site for the commission: <https://balanskommissionen.se/>

Henrik Sjölund, CEO Holmen (Forestry Products)

Per Arfvidsson, Deputy CEO Lantmännen (Agriculture and Food Products)

Ulf Larsson, CEO SCA (Forestry Products)

Lena Ek, Chair of the Board Södra Skogsägarna (Forestry Products)

Johan Lindehag, CEO Ellevio (Power Distribution)

Per Langer, CEO Fortum Sweden (Energy)

Mikael Staffas, CEO Boliden (Mining)

Our view of the EU Taxonomy in summary

We are worried that Taxonomy as presented could cause significant damage to the Swedish climate reset.

- The criteria within the Taxonomy are misdirected which means that only a limited amount of companies and their business activities would be classed as green.
- In the case of Sweden, there is a great deal of concern within the forestry, farming and energy sectors for example – as we have unique advantages within sustainable farming and forestry and renewable energy sources, such as hydro power and bioenergy.
- There is also significant concern that green investments made in mining and metal production are being classed as non-sustainable, despite the fact that base metals play a fundamental role in climate mitigation through electrification.

The enterprises represented in the Balance Commission represents (hydro power, farming and forestry, the mining and metal industry, bioenergy, waste heat) are to a large extent classed as sustainable by investors. As such, both public listed and private companies within our sectors in Sweden have been able to obtain various forms of “green financing” over the years.

This currently concerns access to and the cost of loan financing, but in the long-run, a green classification will also affect raising venture capital, research funds and the financing of projects.

Market forces are driving demands for sustainable reporting, ESG screened investment funds, companies that perform sustainability ratings and “guidelines” on how sustainability can be measured and defined. A regulation, with centrally resolved (EU) and fixed formal criteria that will be unreasonably comprehensive and based on erroneous premises, threatens a green capital raising system that works and in a worst case scenario, can make future sustainable investments impossible in our sectors.

We also see a big danger in the Taxonomy forming a new general standard, not only impacting future financing, but also spilling over into other regulatory frameworks and legislation and their application, e.g. state support regulations and environment directives. The fact that the Taxonomy risks resulting in such wide-ranging consequences and that it has been managed via a delegated act, where transparency and open consultation have been virtually non-existent, has led to a proposal with major shortcomings and that can therefore be questioned on powerful grounds from both legal and democratic perspectives.

Viewpoints per enterprise sector

We set out below the most important views of the Balanskommission member companies, from a sector perspective.

Swedish hydro power risks being assessed as non-sustainable according to the EU proposal

Hydroelectric power is generally assessed as sustainable in the Taxonomy, but the criteria under Annex 1 are so wide-ranging, sweeping and unclear, the majority of hydro power in Sweden will probably not meet these criteria. In short, the criteria mean that the storage and control of water of all types – on which the whole of hydro power in Sweden is based – is classified as unsustainable. This applies in particular to the so-called DNSH criteria under clause 3 “Sustainable use and protection of water and marine resources”.

Tough environmental criteria for hydro power go without saying, but they must be effective and precise. These criteria actually entail blind and detailed criteria for climate adaptation instead, that have been resolved in Brussels and that are to apply to hydro power stations throughout the EU, whether in the far north of Sweden or far

south of Italy. Effective environmental criteria should be structured with respect to local biological conditions and as closely as possible to the activity concerned. An environment measure that is effective in one location is not necessarily effective somewhere else.

Sweden has already adopted a very ambitious national plan for the coordinated climate change adaptation of hydro power where local circumstances and the state of each river and power station are taken into consideration instead. The costs of this are being paid for by the hydro power industry companies themselves who have invested SEK 10 billion in an environment fund to cover all climate change adaptations. The sweeping criteria in the EU Taxonomy risk short-circuiting this process.

The starting point for the status of hydro power in the Taxonomy ought to be in reference to the framework directive for water. The framework directive includes the possibility of exceptions to allow for consideration to be given locally to weighing electricity production against the local environment impact. The framework directive has also been developed over the course of two decades within the parameters of the current legislative process within the EU.

Forestry – a non-sustainable sector according to the Taxonomy

The Swedish forestry sector assess that the Taxonomy as it is currently formulated risks defining Swedish forestry and forestry products as non-sustainable. That would have extensive negative consequences for green investments and risks reducing investments in the Swedish forestry industry.

The EU Commission proposal deviates from the definition of sustainable forestry that the EU expert group has agreed on, and that is based on the current regulatory framework. To be called sustainable, the starting points for the forestry industry must be changed on a number of points. What's more, a substantial administrative burden is being placed on forest owners via criteria for reporting the carbon balance in business activities to the relevant authorities along with mandatory planning data. No consideration has been given to the positive climate effect the renewable raw materials have via the substitution forestry industry products contribute with. New figures show that the possibility of replacing fossil fuel based products via substitution, offers climate benefits that are four times greater than the growing forest.

The focus on the EU Technical Expert Group (TEG) in the area, has been on the role of forests as a carbon sink that stores sequestered carbon, i.e. the TEG has not considered the full climate benefits of forestry and forest products. Sweden's forestry industry products are therefore not included in the Taxonomy – despite the fact that these products are a linchpin of the circular economy. Quite simply, too much weight is given to viewing forests and trees as a source of carbon dioxide sequestration instead of seeing the advantages of trees as a climate positive material substitution.

Such lack of insight into Nordic forestry means that the EU experts miss how forests play a vital role in the transition to a circular economy in terms of the importance of forests for sustainable buildings, the production of pulp and paper and biofuel. Our Swedish forestry companies, that already base their business activities on renewable raw materials and fossil fuel free processes, will suffer major negative consequences if they are not included in the Taxonomy. This will not only affect how the finance sector approaches the industry, but also other legislation, as the Commission is suddenly introducing new definitions of sustainable forestry.

Exclusion of biofuel from forestry and agriculture

The new delegated acts say that only so-called advanced biofuels are to be given the green light. This is in contradiction of the Renewable Energy Directive (RED) resolution, that has been adopted in democratic order, and is by no means technology neutral, which previously statements had lauded as an important Swedish principle to campaign for.

The Swedish line in this, both in the EU and in the structuring of Swedish instruments/goals, is that technology and raw material neutrality should apply and that it should be more the case that the climate mitigation effectiveness of biofuels, complemented by sustainability criteria for raw material production within agriculture and forestry, are what should count. The Taxonomy accordingly undoubtedly deviates from the Swedish line on this important issue.

A document has now been laid on the table that unilaterally promotes electrification and hydrogen gas in all areas, fast track to the transition from coal to natural gas, that requires bureaucratic environment and climate-related reporting from individual forest owners and farmers, puts district heating at a disadvantage and not least, discourages bioenergy solutions.

The proposal is very bad news when it comes to transport. The proposal approves nothing but electric and hydrogen powered vehicles from 2026. All our biodiesel, biogas and ethanol buses are, in principle, rejected. This would render the Swedish climate mitigation target of a 70 percent reduction in the transport sector by 2030 impossible in practice. The development of advanced new biofuels will also become impossible if there is no market for such fuels.

Added to which, comprehensive detailed rules are being imposed on agriculture that will entail a further regulatory burden and costs for farmers, despite the fact that one aim of Sweden's food strategy is to lighten the regulatory burden, create greater competitiveness and increase the production of sustainable food. Swedish agriculture is amongst the most sustainable in the world today, which is very largely a result of the long-term efforts of the farmers on the sustainability front, rather than comprehensive and cost-driving rules and regulations.

The contribution of mining to climate change mitigation is being impaired

The Swedish mining industry is the world-leader in a number of areas while in parallel, access to base metals is an absolute necessity if climate change mitigation is to be enabled. For example, the energy sector, transport sector and manufacturing industry will need substantial quantities of copper for their climate change adaptation through electrification. Europe has a shortage of essential metals and has to import the majority of these commodities from countries with a poorer environment and climate mitigation performance.

According to the current Taxonomy proposal, mining is excluded, which indirectly means that such activities can be interpreted as non-sustainable irrespective of actual performance or how significant the products are. Work is in progress to include mining in the Taxonomy in 2021. Technical Expert Groups have been commissioned for this purpose and are expected to present proposals in March. Supporting data are required to include the formulation of relevant criteria that enable investments in both existing and new mining enterprises. As such business activities are pursued in the face of fully globalised competition, such criteria must also factor in attributable cost levels.

The mining industry in Sweden has been investing in climate change mitigation measures for a long time, which has resulted above all, in an increased degree of electrification. Such developments are expected to be continued and carbon dioxide emissions from transport equipment in particular, are expected to be phased out to a very great extent in the near future. Mining is, however, a very capital-intensive industry and were financing opportunities to be restricted, on very doubtful grounds, this not only risks making new investments more difficult, but also investments in replacement equipment that offers improved performance from both a productivity and climate mitigation perspective.

Indirect impact on the power network infrastructure

Even investment projects for the power network infrastructure can risk being classed as non-sustainable in part when the new Taxonomy gains traction. This can apply to enterprises that cannot meet the criteria in the proposed Taxonomy but await connection or where the power network needs reinvestment or alternatively strengthening due to a need for increased capacity, such as a hydro power station or biomass facilities.

Connecting renewable energy production to the network including any necessary reinvestments and maintenance of the existing network is currently classed as a clearly sustainable investment by CICERO Shades of Green, for example. The Taxonomy will mean that projects related to such power network strengthening risk being classed as non-sustainable and in turn, become tougher to finance. Making raising capital for power network infrastructures more difficult is a big threat to the major transition Sweden faces at a time when inadequate network capacity is already a challenge today.

About the Balance Commission's members:

Holmen

As one of the largest forestry owners in Sweden, Holmen processes forestry commodities into climate smart buildings, renewable packaging, magazines and books. Its forest holdings are also used to produce hydro and wind power. Holmen has six production facilities in Sweden, including sawmills and pulp mills.

Lantmännen

Lantmännen is an agricultural cooperative and the Northern European leader in agriculture, machinery, bioenergy and food products. We are owned by 20,000 Swedish farmers, have 10,000 employees, operations in some 20 countries and annual revenues of SEK 50 billion. With grain as our base, we process arable land resources for economically viable farming.

SCA

SCA owns 2.6 million hectares of forests in northern Sweden, the largest private forest holdings in Europe. Above all, SCA produces timber products, pulp, kraftliner, printing paper and renewable energy. SCA is also an important employer with strong ties to communities in the north where its industrial and business activities are located.

Södra Skogsägarna

Södra is a forestry industry group that processes raw materials from over 52,000 forest owners into renewable, climate smart products that are exported to an international market. Its manufacturing processes produce a significant surplus of renewable energy that is sold to power and district heating networks.

Ellevio

Ellevio is one of the largest power distribution companies in Sweden with around one million customers. We are taking an active role in the journey to a fossil fuel free society. Our distribution network is the spine that connects together producers and consumers of electricity, enables more renewable electricity production, electrification and industry and that creates the platform for new climate smart services for our customers. We have around 500 employees and employ a total of 3,000 people around the country.

Fortum

Fortum is a leading energy company that develops and markets solutions within power, heating, cooling, recycling and waste management. As one of the largest energy companies in Europe, Fortum has made big strides towards sustainable energy production and the circular economy. Fossil fuel free production now accounts for 96% of Fortum's total power production in Europe.

Boliden

Boliden is a leader within both sustainable mining and metals production and the recycling of metals. For over 90 years, Boliden has been prospecting, extracting and refining base metals that make modern society function. The company has operations in Sweden, Finland, Norway and Ireland today.