Svenska Bankföreningen
Swedish Bankers' Association

POSITION PAPER

Our reference: 2020/12/002

2020-12-15

EU- Commission

Consultation on the draft Taxonomy Delegated Act

- Swedish Bankers' Association's Response

The Swedish Bankers' Association supports the idea of an EU Taxonomy for sustainable activities. However, the draft contains several proposals that will harm the usability of the Taxonomy and create an uneven playing field among EU-countries.

When complying with DNSH there is a need to ensure usability and proportionality, therefore a practical guidance need to be developed recognizing regional and national conditions.

7.7 Acquisition and ownership of buildings

The proposal that pre-2021 buildings must have at least EPC A (mitigation) to be taxonomy eligible would significantly impact eligible assets as well as eligible mortgages and Taxonomy aligned green bonds. The criteria for granting an EPC level A for buildings vary significantly between EU Member States. In Sweden A level corresponds to a 50% better energy performance measure than the requirements for new buildings under Swedish law (corresponding to class C), which already sets comparatively high ambitions for NZEB. Due to the strict energy classification, residential buildings with EPC A represent only 1% of the classified building stock in Sweden. The green mortgage market and the green bond market in Sweden will therefore be seriously hampered if the requirement is kept at EPC A. In Sweden 56 percent of the issuers of green bonds are property related. Moreover, upgrading a low energy level building to EPC A (adaptation), would be extremely difficult.

Instead, we strongly support that buildings in the "top 15% of the local existing stock" will be considered taxonomy eligible for mitigation as proposed by TEG in its final March report.

7.2 Renovation of existing buildings

The renovation of the existing building stock is key to transition the building sector to become more energy efficient. This will in turn support financial stability by making banks portfolios more resilient to real economy shocks.

We support eligibility of loans financing building renovation with the following modifications: (i) the entirety of loans for renovation can be categorised as eligible "transition activities" when at least 50% of the loan relates to energy efficiency measures and (ii) when expenditures cannot be distinguished by type, 50% of the total renovation expenditures may be counted as the proxy representing energy efficiency measures. The loans for acquisition and renovation of buildings may need to consider acquisition costs integrally with the eligible renovation costs if these costs cannot be practically separated in those types of loans.

7.1 Construction of new buildings

The DNSH criteria of “not built on arable land, crop land with a moderate to high level of soil fertility or forest land”, used for a couple of economic activities and for both mitigation and adaptation, is complex and difficult to apply in Sweden, mainly because if you interpret this strict there is very little land that can be used for new buildings. The practical implications of the DNSH criteria may seriously harm the construction of new buildings in many Northern European countries. As the DNSH criteria in the TEG report more correctly captures the issues related to protection and restoration of biodiversity and ecosystem, we strongly argue that those criteria should be used.

1.7 Improved Forest Management

We strongly urge the EC to return to the original proposal in the TEG report with respect to forest management i.e. Existing forest management activities. The new proposed activity, Improved forest management, excessively narrows the taxonomy-compliant forest management activities and unrightfully excludes sustainable forest management practices already in place in several Nordic countries. This cannot be in line with the purpose of the Taxonomy Regulation (2020/852) and the goals of EU being climate-neutral by 2050. See further in the appendix.

Appendix

Improved forest management

We strongly question the EC's removal of the TEG report's section regarding Existing forest management. We also strongly question the addition of a completely new section named Improved forest management and its requirement for additionality. This is a significant change of TEG's proposal and has not been on any previous public consultation.

Removing the activity Existing forest management will have the effect that existing sustainable forestry will not be able to qualify under the taxonomy, which cannot be in line with the purpose of the Taxonomy Regulation (2020/852) and the goals of EU being climate-neutral by 2050. The definition "management interventions in forests done for the purpose of climate change mitigation" in the activity Improved forest management significantly limits its usability and excludes a sustainable existing forest management. This definition in combination with the requirement for "additionality" (section 3) of the activity implies that the activities under Improved forest management does not include ongoing forest management. Existing forest management in the Nordics is contributing substantially to climate change mitigation, even if the purpose of the activity in itself is not climate change mitigation. It is rather the effect of the forest management that is contributing to climate change mitigation. The existing forest management in Sweden absorbs about 40 million ton CO2e annually (net after annual harvesting). This must in all aspects be considered as a substantial contribution to climate change. In addition to this, the substitution effect of the renewable raw material produced from the forest is substantial and replaces e.g. fossil based products. The raw material from the forest is also enabling several other of the activities listed in Article 10.1 of Reg. 2020/852, which in itself would qualify it for being included in the activities listed in Reg. 2020/852.

By excluding existing forest management from the taxonomy, investments in forests and forest companies would be considered non sustainable, which would significantly restrict available financing for these sustainable activities. It would also mean that small holders' financing of ongoing forest management and acquisitions of new forest would become more expensive and thereby limit the important climate change mitigation effects of forest management. The reason is that banks that finance small holders will not be able to obtain cost efficient funding for such activities when forest management is considered as not sustainable. For both investors and other financial market participants a large part of their investments and funding activities that are today deemed sustainable, considering the climate benefit the forest contributes to, would suddenly be classified as non sustainable. The Nordic region contains a significant share of Europe's forests, predominately privately-held and managed by small family and large corporate owners. As those forest owners are Nordic banks' customers, the current approach to accounting for carbon sequestration and storage activities in forestry may also have an unfairly negative impact on those customers' eligibility for contributing toward banks' climate neutrality targets. We suggest that a science-based approach be adopted, while also recognising the important contributions of Nordic forest owners toward the climate change mitigation objective.

Further, we strongly urge the EC to reconsider the extremely detailed reporting and third party/official review/control requirements set out in the proposal and instead consider the more proportionate approach taken by TEG. In Sweden, 70 % of the country is forest, and almost 50 % of the forest is owned by more than 300,000 private individuals. In Sweden there is a system of an annual official assessment of all the forests in Sweden, which is part of the official Swedish statistics. The annual assessment gives a fair and accurate view of the climate contribution the forest makes. To require all data and assessments included in EC's proposal to be conducted by each individual owner on its respective holdings will not give any more accurate data but will only lead to extremely higher cost and be very burdensome and even impossible for the individual owner. This cannot be proportionate to the aim with the reporting. Thus, alternative solutions for member states where the forest legislation already have very high standards for forest management and where national reporting and assessments are in place must be included. To not do this where alternative national solutions are in place can also be questioned both from the principle of subsidiarity and the principle of

proportionality.

A common EU legislation regarding forest must take into account the different natural conditions within the EU and understand the long timeframes of the forest. In the Nordics the life cycle for a forest is around 60-80 years. Thus, a climate benefit analysis of 20 years for an individual forest stand is too short, it must be over the life cycle of the forest. If 20 years should be the timeframe the analysis must be allowed to be made on a landscape/national level.

We also question if the removal of Existing forest management from the delegated act and inclusion of Improved forest management is within the mandate given to the EC in Article 10.3. Article 10.1 refers to activities contributing substantially to climate change mitigation. In art. 10.1(f) sustainable forest management is included and art 10.1(i) talks about enabling activities to (a)-(h). A sustainable existing forest management can be included in both these sections. Art. 10.3 mandates EC to establish technical screening criteria for activities that contributes substantially to climate change. Nowhere is it mentioned that the purpose itself of the activity needs to be climate change. The extensive requirements that EC sets out in Improved forest management cannot be considered as merely a technical screening criteria, the EC proposal goes beyond this and its legality can therefore be questioned. Not including already sustainable activities in the taxonomy is also contrary to the whole purpose of directing investments to activities that are sustainable.