

## Position of the Confederation of Finnish Industries, SA Confederation of Icelandic Enterprise, the Confederation of Norwegian Enterprise and the Confederation of Swedish Enterprise on the European Commission's draft delegated Regulation on the EU's environmental objectives for climate change mitigation and adaptation under the 'Taxonomy'

The Nordic business federations of Finland, Iceland, Norway and Sweden are committed to the EU's ambition of reaching carbon neutrality by 2050. We also share the view that Europe should continue to play a leading role in climate action and provide solutions that can be applied globally. While policies set the course and define the climate-neutral ambitions, the private sector will largely be responsible for delivering the required capital, technologies, solutions, products and innovations needed to achieve such far-reaching goals.

The Nordic countries are leaders in developing these innovations and technologies that provide solutions for realising climate improvements. We have already come a long way in producing and exporting low-carbon goods and fuels, bringing climate benefits that extend far beyond Europe's borders. Hence, The European Green Deal and EU climate policy must go hand-in-hand, supporting strong and competitive European businesses.

Under the legislative framework of the European Commission's draft delegated Regulation which establishes the technical screening criteria for determining the conditions - under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation, it seems that the criteria are not optimal to enable carbon neutrality investments. Zero-emission forms of electricity production are treated differently, ie. the proposition is not technology-neutral. The preference for wind and solar power limits most of the emission-free electricity, outside the proposed legislative package.

The Nordic business federations from Finland, Iceland, Norway and Sweden are deeply concerned by this classification. While we believe it is fundamentally wrong, we also find that it will undermine ours, and Europe's, ability to reach our climate goals. It also risks damaging the competitiveness of European industry and ultimately leading to an overall increase in global CO<sub>2</sub> emissions. While hydropower face particular criteria, sun and windpower do not, and while hydropower face emission thresholds through a life cycle from built to operation, wind and solar do not. Techno-neutrality, be it renewables nuclear, the use of CCUS or any carbon-free technologies, is imperative for a cost efficient path to carbon neutrality and well-functioning markets.

The increased electrification of our communities will be vital in delivering effective approaches for fighting climate change. A sharp increase in electricity use is the key to allowing Finland, Iceland, Sweden and Norway to continue to grow at the same time as our countries are phasing out the use of fossil fuels. Such an approach will envisage extensive and substantial reinvestment in existing hydropower in our countries. The Nordic large scale hydropower is a flexible energy source. It is therefore an important enabler for the expansion of intermittent renewable energy in northern-Europe.

The negative implications of classifying hydropower as unsustainable cannot be underestimated. Firstly, it would send a signal to electricity producers not to further invest in hydropower as capital costs gets driven up and ultimately fall on the electricity consumers. Secondly, companies that rely on fossil-free hydropower for their production may be perceived as generally less sustainable by investors. Thus, rather than reducing emissions the EU's taxonomy, contrary to its intended purpose, may ultimately lead to increased - not decreased - CO<sub>2</sub> emissions. The taxonomy is binary, an activity

14 December 2020

is either classified as sustainable or not. Equating CO<sub>2</sub>-free hydropower with electricity produced from coal risks seriously undermining climate change efforts.

We would also like to emphasize that the use of biofuels can play an important role in the transition to reach climate neutrality and reduce the use of fossil fuels. It is important that this is clearly reflected in the taxonomy. As for now, we are concerned that the technical criteria's in the taxonomy will undoubtedly disadvantage the use of biofuels.

The Nordic business federations of Finland, Iceland, Norway and Sweden urge the EU governments, as well as the European Commission and the European Parliament, to act swiftly and decisively. It is vital that they ensure that the existing competitiveness of business and industry is not undermined, weakening the capacity to address the challenges of climate change as a result.