Finance Norway

Taxonomy - Finance Norway’s response to the consultation on the draft delegated regulation

Finance Norway supports the European Union’s ambition to boost private and public sustainable investments and reduce the risk of “greenwashing”. In our view, the EU classification system (taxonomy) for green investments is of significant importance for Norwegian interests and will have major consequences for the valuation and access to capital for important Norwegian industries. Finance Norway appreciates the opportunity to comment on the draft delegated acts and how these may impact the Norwegian economy and industries.

Although we are very supportive of the taxonomy, the generally strict stance of the Commission may slow the much needed and desired path toward greening of the economy. A somewhat more flexible and stepwise approach, which to a greater extent is based on the TEG recommendations, may well present a more efficient route. This is particularly true for many sectors and industries that have started on a transition path toward a sustainable future, many coming from a high emission starting point, but that will need more investments and correct incentives to reach their goals.

Activities not yet defined by the taxonomy
In Norway, we fear that important industries and activities not yet included in the taxonomy, i.e. fisheries and aquaculture, could be negatively impacted. Financial markets have already started to map activities that are taxonomy compliant/eligible, and we observe that capital flows have started to gravitate toward these activities faster and to a larger extent than previously expected. We stress the importance to define the criteria for sectors/activities not yet included in the delegated acts as soon as possible, especially fisheries and aquaculture.

Climate change mitigation (Annex 1)
Construction and real estate activities
Renovation of existing buildings (7.2) is crucial for the transition of the building stock to become more energy efficient. With this in mind, we underline that when a renovation is compliant with requirements for major renovations according to the TSC for renovations the entire building should be eligible, not only the costs for the renovation. This should be irrespective of reached Energy Performance Certificate (EPC) class.

With the criteria now proposed, the full loan amount would only be eligible when a building reaches an EPC class A. In Norway, among others, this is a level that would be almost impossible to reach for most renovated buildings. Thus, we predict that the proposed criteria would leave small incentives to improve existing buildings to be taxonomy aligned. It would also be difficult to practically separate the renovation cost from the loan, especially for mortgages.

With regards to the **acquisition and ownership of buildings** (7.7), the criteria that buildings built before 31 December 2020 should have at least Energy EPC class A in order to fulfil the criteria for climate change mitigation is challenging. This is a substantial change from the last TEG-report, where the TEG suggested that the criteria should be set at a level reflecting the top 15 % in terms of energy demand. This is also a substantial change from the prior TEG reports, where EPC class A and B was suggested.

We would like to point out that EPC ratings is not a good proxy of energy efficiency across EU countries, as the EPC scales are not comparable. In some countries the EPC label A includes more than 15 % of the building stock, while in other countries (such as for example the Nordic countries Norway, Sweden and Finland) EPC class A only includes about 1% of the building stock.

In the well-functioning Norwegian market for green covered bonds most issuers include the top 15 % of the residential building stock in their green frameworks. However, the abovementioned criteria will cause a large reduction in the volume of eligible green buildings and associated mortgages. We fear that a limited volume would make issuing green bonds under the EU green bond standard not a feasible option for Norwegian covered bond issuers. In our view, such a limitation would have a negative impact on the financing of green buildings in Norway and thereby go against intended purpose of the taxonomy.

For residential buildings, we propose that the calculated performance of the building must be within the top 15% of the local existing stock in terms of operational Primary Energy Demand, as proposed in the final TEG recommendation from March 2020.

For non-residential buildings, we believe it is important to harmonize the requirements for energy efficiency across borders and at the same time ensure a sufficient stringent criterion. Different proof of energy efficiency should be considered eligible, including sustainable building certifications (e.g. BREEAM and LEED) and EPC certificate class A and B – but only when it can be proven that these certifications are at a sufficient stringent level in terms of energy efficiency.

With regards to the criteria for **construction of new buildings** (7.1) (PED = NZEB - 20 %) we believe the use of the NZEB criteria could be challenging and lead to large differences in the thresholds across countries. In many countries the NZEB requirements constitutes a net zero carbon building, while in other countries the NZEB requirement is much less ambitious. We urge the Commission to find a solution that would harmonize the threshold across borders with respect to energy demand.

In addition, there is a need to clarify the definition of adaptation and adaptation solutions: for “Acquisition and ownership” of Buildings (chapter 7). Does this refer to the renovation project (adaptation solution), the actual investment in a building (acquisition) or the activity of owning a building and doing maintenance and improvements as part of the activity of owning. It is of great importance to clarify which requirements apply, particularly for DNSH Mitigation in Annex 2 Buildings – acquisition and ownership.

Sea and coastal water freight transport
Shipping and coastal supply services are important industries in Norway, and we are very pleased to see that shipping activities are included in the draft DA. We do however have some concerns related to the criteria that the vessels cannot be dedicated to the transport of fossil fuels. We believe that the vessels should be assessed on their own performance and the level of greenhouse gas emissions instead of the nature of cargo. Further, fossil fuels are targeted directly in other parts of the delegated act. In addition, we believe that the criteria for hybrid vessels should be set at a threshold that is possible to reach also for long distance shipping. There should be a less arduous level in the first years, to incentivise “green” R&D in long distance shipping - an activity where there is currently no low-carbon solution.

Electricity generation from hydropower
We are concerned that the draft delegated act does not follow the technology neutrality principle and impose stricter criteria for hydropower than for other renewable energy sources. The same principles should be implemented for all renewable energy sources, to secure that no renewable energy sources are disadvantaged compared to other forms of energy sources. Furthermore, a distinction should made between existing and new hydropower plants, as new hydropower plants are associated with more principal adverse impact (PAI) considerations.

Climate change adaption (Annex 2)
Non-Life Insurance
Understanding risk is at the very heart of the insurance industry, and non-life insurers have factored sustainability considerations into their business for a long time. Non-life insurers contribute significantly to the EU's sustainability agenda by providing insurance to vital infrastructure and buildings against natural catastrophes.

The Norwegian insurance industry is at the forefront in the world when it comes to loss-data sharing with the government, to support local municipalities and national government with better decision making. As it stands now, the data sharing criteria in the taxonomy lack a clear definition related to: which parties which should get access to data; the granularity of the data; how external parties should document the need for data and the handling of privacy issues. We urge the Commission to address these questions before the taxonomy is being finalized. Data sharing with external parties will result in extra cost for the non-life insurance industry without necessary changes to these criteria, and it is not appropriate that the industry should carry this cost.