

Finance Finland's response to the draft delegated regulation on establishing 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 and for determining whether that economic activity causes no significant harm to any of the other environmental objectives

Finance Finland (FFI) welcomes the European Commission's and the Technical Expert Group's (TEG) work to develop a classification system for sustainable investments (taxonomy). However, the European Commission's delegated acts propose a few notable changes to the previous TEG's recommendations on **buildings and forestry climate mitigation criteria**, which impact to sustainable finance market is not consistent with the stated objectives of the EU's Sustainable Finance Action Plan.

Need to change the buildings' energy efficiency criteria

Whereas the SF Action Plan in 2018 stated as its objective to "reorient capital flows towards sustainable investments in order to achieve sustainable and inclusive growth", the proposed climate mitigation criteria for existing building stock would in effect mean that in many countries sustainable infrastructure investments or lending would no longer be possible (according to the taxonomy criteria). The Commission proposes that only buildings that have Energy Performance Certificate level A could be considered sustainable, but the criteria for granting an EPC level A for buildings varies significantly between the EU Member States. Only about 1% of buildings in Finland have that rating, and there is not a single green bond in Europe that would qualify if this criterion would become effective.

We strongly appeal to the European Commission that it restores the TEG's original proposal for buildings' energy efficiency, which is that the top 15% most energy efficient among local stock would be eligible. This criteria would set the same ambition level for different markets, whereas the single EPC level does not, while allowing for the eligibility criteria to tighten over time as buildings reach higher levels of efficiency. Our concrete proposal for change is the following:

Acquisition and ownership of buildings

Description of the activity

Buying real estate and exercising ownership of that real estate.

[...]

For buildings built before 31 December 2020, ~~the building has at least Energy Performance Certificate (EPC) class A.~~ **The calculated performance of the building must be within the top 15% of the local existing stock in terms of operational Primary Energy Demand, expressed as kWh/m²y.**

More precision must be given to the 'do no significant harm' (DNSH) criteria for buildings

In the Commission's delegated act proposal, a building should not be built on arable, crop or forest land (whether covered by trees or not). This kind of vague description could mean that there is no land in Finland that would be eligible as building site. It needs to be specified what constitutes crop land and what is forest, as the understanding of these concepts can be very different depending on country.

The DNSH criteria on acquisition and ownership of buildings also needs a time frame for determining when enough time has passed since the land use change from crop or forest land to a building site. Without determining such a time frame, we can hardly imagine any buildings that would be taxonomy eligible, as most of the constructed areas have been covered by trees at some point in time.

Demand for “additionality” in forestry does not make sense in areas where sustainable forest management is a standard

The European Commission proposes to exclude ordinary sustainable forest management from the taxonomy criteria, contrary to the TEG’s advice. The Commission’s request for “additionality” in forest management mean that only measures above or beyond some kind of “ordinary” forest management can be classified as sustainable. As these measures are only marginal in comparison to the ordinary sustainable forest management, the climate benefit will also be marginal.

In Finland, 90 % of forests used for commercial purposes are PEFC-certified¹. This means that sustainable forest management is a standard here. It does not make sense to exclude a sustainable economic sector entirely only because it is “too sustainable”, meaning that instead of sustainable forest management being something exceptional, or “additional”, it is normal business conduct. Finland has a long history for improving forestry environmentally and Finnish forests are a carbon sink, as their growth stores more carbon than is released through their use and natural drain. The Commission’s taxonomy proposal does not encourage sustainable forestry developments, but instead aims for a situation where sustainable forestry can only be and remain marginal in the EU.

We strongly advocate for the removal of all “additionality” conditions from the taxonomy Annex I forestry criteria.

Too tight taxonomy criteria do not serve purpose of use

Alignment with Paris agreement should be the primary basis for taxonomy criteria. However, not all criteria are about GHG limits, and therefore for them it is not necessarily possible to use the Paris agreement as benchmark. For those remaining criteria to be usable as guidance in investment decisions, we think it would be reasonable that in general at least 5-15 % of economic activities in the EU would be eligible. The criteria can and should be tightened over time, but we are worried that if it is too tight, it does not serve the purpose of use. For example, in the Commission’s proposed delegated acts the existing hydropower plants would, after application of strict do no significant harm criteria, be largely excluded, although they do not produce direct emissions and are renewable energy.

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¹ [Programme for the Endorsement of Forest Certification](#)