

THE HAGA INITIATIVE wants to prove that the business community is part of the solution in the transformation to a low-carbon society. Climate responsibility is inherent in our societal responsibility, and therefore, we push for more ambitious climate policy to enable companies to work more effectively with their climate responsibility.

The Haga Initiative is a business network that strives to reduce the business sector's climate impact. We are a platform for companies who are committed to reduce their climate impact in order to achieve the Haga Initiative's vision of a profitable business sector without climate impact. The way forward for the Haga Initiative is to engage companies from different industries and highlight the ween ambitious climate strategies and increased profitability.

Introduction

Eleven days into its mandate, the von der Leyen Commission presented the European Green Deal. With this initiative, the EU has embarked on the greatest transition by design in history, setting out a roadmap for how to make Europe the first climate-neutral continent by 2050 while at the same time enhancing growth, providing new, and better jobs and improving people's well-being.

The coronavirus hit Europe instantly after the Commission presented the European Green Deal. The virus affected all our societies and Member States – with consequences on jobs, the economy, and people's health. Also, climate change was affected by lower greenhouse gas emissions. Greenhouse gas emissions decreased by approximately 8 per cent during 2020 in Sweden, but the emission levels were already back to normal at the beginning of 2021. The expectation is that greenhouse gas emissions decreased 10 per cent during 2020 compared to 2019 in the European Union, according to Climate Action Tracker².

The European Green Deal, and the Paris Agreement's 1.5-degree target, will have a significant influence on EU policy. Both will predominantly have impacts on the Green Deal regulations. Regarding this revision of policies, we want to ensure that they align with the 1.5-degree ambition.

The transition towards climate neutrality will provide opportunities and challenges for regions and sectors. While some will reap the benefits immediately, for others it will take longer. Our ambition is to seize business opportunities and create conditions for a business sector without climate impact.



¹ https://www.naturvardsverket.se/Sa-mar-miljon/Klimat-och-luft/Klimat/Tre-satt-att-berakna-klimatpaverkande-utslapp/Coronapandemin-och-koldioxidutslappen/

² https://climateactiontracker.org/countries/eu/

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PART I

Increasing the EU's Climate ambition for 2030 to 2050



This chapter concerns the following directives:

- EU Climate Law
- · Revision of Emission Trading Scheme
- Introduction of carbon budget

The Haga Initiative supports the EU Commission's proposal to set a climate neutrality target for 2050. The scope of the Climate Law requires all economic sectors, including aviation and maritime transport, to reduce their emissions. The 2030 and 2040 targets should align with the long-term net-zero target.

The EU Climate law should set the goal of limiting global warming to well below 2°C above pre-industrial levels. Moreover, the EU Climate law should pursue efforts to limit it to 1.5°C above pre-industrial levels according to the Paris Agreement.

We urge the European Commission to set a binding climate target in line with the Paris Agreement and increase the 2030 EU GHG reduction target to 55 per cent rather than 50 per cent. Despite that 55 per cent is the suggested target by the Commission, the Haga Initiative recognizes the need for even higher ambition as proposed by the rapporteur (65 %) and the ENVI Committee (60 per cent).

The Haga Initiative proposes that the target should be further clarified by a binding carbon budget for the remaining GHG emissions until 2050. A carbon or greenhouse gas budget, setting out the total remaining quantity of greenhouse gas emissions as CO2 equivalent by 2050, would clarify the long-term target and create a natural foundation for the right amount of emission allowances within the expanding ETS. A budget would improve predictability and the robustness of the CO2 price.

In 2019, close to 100 organisations signed the Nordic call for the EU and its Member States to set and agree on sufficiently ambitious climate targets, including a binding carbon budget for the remaining GHG emissions. The callers are companies, cities, universities, business networks, the Confederations of Finnish Industries, the Danish Industries representing more than 25,000 companies, and the Central Union of Agricultural Producers and Forest Owners (MTK) in Finland with its more than 300,000 members.

Read more about our positions <u>here</u> and <u>here</u>.

The EU Emission Trading Scheme might be one of the most powerful tools to decrease emissions within the union. However, with today's regulations, the EU ETS will reach zero in 2058. This is not enough. The Paris Agreement aims to make the world climate neutral by 2050, and according to the European Climate Law, EU member states should be climate neutral by 2050. Since its inception in 2005, the EU ETS has amplified several times, the last time in 2018. The Swedish proposal cancels in the order of 3 billion tonnes of allowances in the market stability reserve, which corresponds to 50 times Sweden's annual emissions. During 2020 the EU ETS decreased emissions by 13.3 per cent compared to 2019's levels³.

Read more about our EU ETS positions <u>here</u>.

A European carbon budget holds massive support; Close to 100 companies, cities, universities, business networks, and associations called on the EU to set a binding carbon budget for the total remaining quantity of greenhouse gas emissions as CO2 equivalent that can be emitted until 2050 – as well as "net-zero" for 2050 and the alignment of the 2030 and 2040 targets. The carbon budget would create a natural foundation for the right amount of emission allowances within the widening ETS. Furthermore, it would clarify the long-term view of carbon markets and strengthen the EU ETS role as a cornerstone policy instrument.

Carbon budgets have been implemented successfully in the UK and provide long-term guidance to investors. Their sixth budget was published in September, which was the first in line with the new net-zero target.

Policy recommendations

The Haga Initiative,

- Demands that all EU policies should align with the 1.5-degree target.
- Supports a 2030 target of 60 per cent reduction;
- Urges that the EU ETS should align with the 1.5-degree target. It implies an adjustment of the linear reduction factor to at least 4.5 per cent per year. Adjustments should be made in 2020 to be implemented in 2021;
- Suggests that in 2022 when the Market Stability Reserve will be revised, the
 intake rate of 24 per cent should at least be sustained and correlate to the linear
 reduction factor to keep an adequate price on carbon;
- Calls upon the EU to act on a carbon budget for the non-trading sector.
- Emphasizes the need for targets for carbon removal with long-permanence to start addressing residual emissions now to meet the climate target by 2030, to start building capacity to allow for achieving net-zero in 2050
- EU should set targets for carbon removal with long-permanence to start addressing residual emissions already by 2030, to start building capacity to allow for achieving net-zero in 2050

³ https://ec.europa.eu/clima/news/emissions-trading-greenhouse-gas-emissions-reduced-2020_en

PART II

Sustainable transport

This chapter concerns the following directives:

- Energy Taxation Directive
- Renewable Energy Directive (revision)
- An EU Strategy for Energy System Integration
- Sustainable and Smart Mobility Strategy
- Alternative Fuels Infrastructure Directive (revision)
- Fuel Quality Directive



Investments in sustainable alternative fuels, clean technologies, and renewals of transport fleets by public authorities and companies are essential to achieve the transition needed. In addition, digitalisation, automation, the emergence of shared, collaborative economy, and innovative mobility platforms are all disruptive trends challenging the current mobility and transport landscape while also offering great possibilities for its enhancement.

Biofuel is a wide term which includes both sustainable and unsustainable resources and processes. For instance, bioenergy from palm oil (PFAD), waste, or forest management. In Sweden biofuels, biogas, biomethane, and electricity account for 32 per cent of the transport sector, according to the Swedish Energy Agency⁴. Biofuels will have an important role to play to achieve carbon neutrality, especially in hard-to-decarbonise transport modes and to achieve a swift transition from fossil fuels. The ongoing debate on land use and fuels based on food and feed crops needs to be handled with regards to emission cuts, biodiversity, and food sovereignty.

The food and feed demand needs to be satisfied, and the demand will likely decrease in Sweden and the Nordics in a warming world. This may lead to the extension



⁴ https://www.energimyndigheten.se/nyhetsarkiv/2019/andelen-fornybart-i-transportsektorn-fortsatter-att-oka/

of agricultural land into areas with high carbon stock such as forests, wetlands, and peatlands.

Indirect Land Use Change (ILUC) is debated and the new concept of "low ILUC biofuels" should be acknowledged to separate biofuels with high ILUC emissions from biofuels with low emissions. The current 7 per cent cap for conventional biofuels in the Renewable Energy Directive could also hinder the production of conventional biofuels and delay the transition. Especially since the EU Commission has set national limits after the 31st of December 2023 that "high ILUC-risk fuels" will gradually decrease to zero by 2030 at the latest.

High ILUC-risk fuels

Biofuels, bioliquids and biomass fuels produced from food and feed crops for which a <u>significant expansion</u> of the production area into land with high-carbon stock is observed

- Consumption limited by a specific and gradually decreasing limit per Member State
- Feedstock Expansion Report (Delegated Regulation 2019/807) sets values to determine high ILUC-risk crops

Low ILUC-risk fuels

Fuels produced in a way that mitigate ILUC emissions, either because they are the result of productivity increases or because they come from crops grown on abandoned, severely degraded or unused land.

- Exempted from the specific and gradually decreasing limit.
- Specific guidance on how low ILUC risk can be demonstrated

The availability of infrastructure for alternatively-powered vehicles is crucial for the fuel transition. The Haga Initiative welcomes the Commission's aim to expand public recharging and refuelling stations in the EU with one million by 2025.

Hydrogen accounts for less than 2 per cent_of Europe's present energy consumption and is primarily used to produce chemical products. In the light of the Green Deal, hydrogen has become the new flagship among sustainable fuels. In 2020, the EU Commission published A hydrogen strategy for a climate-neutral Europe. Priority areas include clean hydrogen and fuel cells as a part of Renewable Energy Directive (revision). To meet the objectives of the Paris Agreement, difficulties connected to electrification such as storage and carriers needs to be solved. Hydrogen might be one of these solutions. Hydrogen from fossil-free electricity will be important to replace fossil fuels in industrial processes an provide flexibility in the electricity system. But some questions remain unanswered. One of them is the loss of energy in the conversions. When converting electricity into hydrogen, this implies a 30 per cent loss of energy content and when using the hydrogen for practical use this leads to another 30 per cent loss. Another one is the fact that hydrogen is highly explosive, and fuel cells require high maintenance.

Subsidies on oil and petroleum products, which accounted for almost half of the total, grew by 18 per cent between 2015 and 2018, while other types of fossil-fuel subsidies stagnated or decreased. Although in the last decade increase in subsidies was largely driven by support for renewable energy, it grew only by 4 per cent since 2015. The transport sector received 20 per cent more fossil fuel subsidies in 2018 than three years earlier, overwhelmingly in the form of subsidies to petroleum products.

Policy recommendations

The Haga Inititive,

- Calls for the targets of renewable fuels in the transport sector must increase from today's 14 per cent. The Commission has suggested 24 per cent – which is insufficient regarding the climate targets and Paris Agreement. The Haga Initiative suggests an ambitious target that creates a distinct level playing field for the decade to come;
- Requests EU transport policy should aim at phasing out fossil fuels as soon as possible.
- Welcomes the Commission's aim of install one million public recharging and refuelling stations by 2025;
- Encourages the EU to adjust the cap for conventional biofuels (7 per cent) with regards to regional conditions, or embrace the subsidiary principle. Biofuels are valuable in the transition from fossil to electricity and will most likely be needed on a long-term basis in maritime and aviation;
- Stresses that hydrogen must be produced from renewable and sustainable resources;
- Urges the Commission to raise the ambitions in the European reduction quota scheme (CO2) from 6 per cent annually and should increase gradually;
- Requests the EU to delete the multipliers in the Fuel Quality Directive since today's calculation methods allow double counting for some transports and fuels which hinders real transition;
- Emphasizes that the Commission should focus on CO2 content rather than energy volume in the revision in the Energy Taxation Directive.

PART III

Food and forestry

This chapter concerns the following directives:

- Land use, land use change, and forestry Regulation
- Farm to Fork Strategy



Land use, land use change, and forestry regulation

Forests and agricultural lands currently cover more than three-quarters of the EU's territory and naturally hold large stocks of carbon, preventing its escape into the atmosphere. EU forests absorb the equivalent of nearly 10 per cent of total EU emissions each year, whereas agriculture is responsible for about 10 per cent of the EU GHG emissions. Land use and forestry are therefore crucial parts in building a robust climate policy.

In Sweden, 70 per cent of the land is forest. Sweden is also the world's 3rd largest exporter of pulp, paper, and sawn timber, which gives Sweden, together with Finland, a unique position in the EU. The use of forest residues for bioenergy is substantial, and bioenergy stands for a high proportion of the Swedish production of heat and electricity. Sweden has also protected 14 per cent of its land and 9 per cent of its forests as national parks and nature reserves.

The Commission's post-2020 EU Forest Strategy, due out in 2021, is assessed to be aligned with the European Green Deal and identify ways to support high-quality forest management, reinforce disaster resilience, and promote sustainable forestry.

Up to 2020, EU Member States were committed under the Kyoto Protocol to ensure that greenhouse gas emissions from land-use were compensated by an equivalent absorption of CO_2 made possible by additional action in the sector. The European Commission now aims to implement this principle (the so-called "no-debit rule") in EU law for the period 2021-2030 by incorporating land use and forestry into the EU's emission-reduction efforts for the first time. This includes an extension of the scope from only forests to all land uses (including wetlands by 2026).

The impact of land use on climate is assessed to be huge. As an illustration, it is estimated that the release of just 0.1 per cent of the carbon currently stored in European soils would equal the annual emissions from as much as 100 million cars. On the other hand, there is also a potential to store carbon in large quantities as carbon sinks in various carbon pools in vegetation, soils, and living organisms. The potential and the different factors affecting the sink are not yet clear, and research is currently ongoing, for instance through a study of the use of biochar and agroforestry.

Agriculture and production of food

The recent report on <u>Climate change and Land</u> of the Intergovernmental Panel on Climate Change stresses that it will be impossible to keep global temperatures at safe levels unless there is a transformation in the way the world produces food and manages the land. The report estimates that 25 – 30 per cent of global greenhouse gas emissions are attributable to the food system. Food systems greatly contribute to greenhouse gas emissions, biodiversity loss, and pollution of air, soil, and water. At the same time, extreme weather events due to climate change are severely affecting agricultural and seafood production, with dire consequences for the livelihood of farmers and fishers and coastal and rural communities.

A Farm to Fork Strategy aims to accelerate our transition to a sustainable food system. The overall objective of the strategy is to accelerate the shift towards a sustainable food system. It should have a neutral or positive environmental impact, be capable of adapting to climate change, contribute to climate change mitigation, ensure food security, and create a food environment that makes healthy diets the easy choice for EU citizens. By shifting the focus from compliance to performance, measures such as eco-schemes should reward farmers for improved environmental and climate performance. For instance, promoting enduring and storing carbon in the soil and improved nutrient management to improve water quality and reduce emissions.

The crisis has also reinforced the importance of resilient and sustainable food systems and access to nature to ensure the quality of life of European citizens. Sustainable land use and nature should form a vital part of Europe's recovery. Nature-based solutions and bioeconomy opportunities can offer employment – especially in the rural economy –and an improved local environment. Simultaneously, the EU's climate plans will require land use to eliminate its emissions and act as a large net carbon sink. The 2050 climate neutrality objective cannot be achieved without using nature-based solutions, such as protecting and restoring natural ecosystems, complementing emissions reductions elsewhere.

The European Green Deal Biodiversity Strategy

On 20 May 2020, the European Commission adopted the Biodiversity Strategy as one of the frameworks under the umbrella of European Green. It was a response to how the world is falling short on reaching the Aichi Biodiversity Targets of the Convention on Biological Diversity, developed in 2010. In the European Green Deal Biodiversity Strategy, new targets for 2030 have been set, including the establishment of protected areas for 30 per cent of all European lands and 30% of European seas; the reduction of pesticides by 50 per cent; and the mobilisation of EUR 20 billion per year for biodiversity. The necessity of action has also been underlined in the

Global Biodiversity Outlook 5 (GBO-5), the WWF report Living Planet Report 2020, and the report from the Intergovernmental Platform on Biodiversity and Ecosystem Services (IPBES) Global Assessment Report on Biodiversity and Ecosystem Services LIPBES. Their main message is that Earth's biodiversity is being destroyed through overconsumption, unsustainably intensive agriculture, deforestation, and climate destruction. Additionally, the One Planet Summit for Biodiversity, which gathered high-level participation at the beginning of 2021, had a clear aim to put forward a new global strategy for biodiversity at the COP15 summit, which is planned to be held in Kunming, China later this year.

Policy recommendations

The Haga Initiative,

- Acknowledges that all policies must be consistent and operate within the limits of sustainable biodiversity and climate targets.
- Calls upon EU to increase the carbon sinks in Europe by using regional conditions;
- Encourages the EU to create incentives for farmers and landowners to make natural capital investments for ecosystem resilience and regeneration, including restoration of carbon-rich habitats and climate-friendly agriculture;
- Asks that the policy must focus on accelerating innovation to cut emissions in hard-to-crack sectors by supporting R&D and demonstration of critical technologies and new business models;
- Supports the effort to leverage the link between biodiversity and climate to ensure that policies work together and even profit from it;
- Recommends that forestry should focus on using as much of the raw material as possible for long-term use;
- Encourages that forests with high conservation value are protected;
- Strongly advises that The REDII and LULUCF regulations should strike a balance between conflicting objectives, where a prominent role for bioenergy in EU's climate strategy is maintained while ensuring other sustainability objectives.

PART IV

EU trade according to 1.5 degree target



This chapter concerns the following directives:

- Proposal for a carbon border adjustment mechanism for selected sectors
- EU Taxonomy
- · Circular Economy Action Plan

Trade-in goods and services make a significant contribution to increasing sustainable growth and creating jobs. When Commission President Ursula von der Leyen presented the political guidelines in December 2019, she said, "The story of our first 100 days is about tackling the twin transition that Europe is facing. It is about turning the fight against climate change into an opportunity for jobs and growth. Reaping the benefits of technology and making it work for people."

Operating as a single market with 27 countries, the EU is a major world trading power. In terms of the total value of all goods and services produced, the EU gross domestic product (GDP) in 2019, when the UK was still part of the EU, was €16.4 trillion. Steering EU trade policy towards climate neutrality and green investments is vital in the climate transition.

In March 2020, the European Commission's new Circular Economy Action Plan was published, which complemented the Industrial Strategy. The action plan sets out several initiatives with the intention of strengthening Europe's industrial base, reducing the material footprint of products, and maximising the potential of the circular economy in terms of emissions reductions. The circular action plan includes several positive calls to action. Materials with considerable potential for circularity received particular attention. These are electronics and information and communications technology (ICT), batteries and vehicles, packaging, plastics, textiles, construction, and buildings. New mandatory requirements for recycled plastic content and reducing waste have also been proposed. These are all welcome initiatives.

Another aspect of greening EU trade is the question of a border carbon adjustments mechanism. Durable regulations that avoid carbon leakage and distorted competition are needed to continue to protect the European industry. At present, there are shortcomings in the free allocation in the ETS and there is a need to review alternative regulations that better reflect the actual costs of emissions. An alternative to free allocation can be border carbon adjustments (BCA). The CBA should be an alternative rather than a complement in order to find a long-term solution to the problem

of carbon leakage. However, it is only needed as long as the EU has higher climate ambitions than its main trading partners. Free trade, with long-term climate targets making predictable, is necessary.

Parallel to the Green Deal, the EU has negotiated the EU Taxonomy. It is a classification tool aimed to define the environmental performance of economic activities and sets requirements corporate activities must meet to be considered sustainable. The EU Taxonomy is the EU's answer to the question "what is green?" and can be seen as a procurement plan for 2050.

Reporting under the Taxonomy Regulation will be mandatory for financial market participants offering financial products within the EU, and large public interest companies are required to publish a non-financial statement according to the Non-Financial Reporting Directive. The Taxonomy will also be used by the EU and the Member States when setting public measures, standards, or labels for green financial products or green (corporate) bonds.

However, any market participant can use the Taxonomy to classify their economic activity as sustainable, and regulation is expected to have a vast impact regarding steering capital flows to what is considered green. The Taxonomy Regulation sets out six environmental objectives:

- 1. Climate change mitigation
- 2. Climate change adaptation
- 3. Sustainable use and protection of water and marine resources
- 4. Transition to a circular economy, waste prevention, and recycling
- 5. Pollution prevention and control
- 6. Protection of healthy ecosystems.

The final version of the taxonomy remains to be seen. The outcome of the taxonomy has been widely criticized by stakeholders for discouraging green investments in crop-based biofuels, hydropower, and green buildings. Since the taxonomy will affect European investments for decades to come, it is crucial that the classification tool is accurate and doesn't hinder the transformation.

Sustainable use of natural resources looks different between the Member States. What type of natural resources, the amount of resources, and population density, give different outcomes. The population density in the Netherlands is 502 pers/km2, while Sweden has only 25 pers/km2 and Hungary 105 pers/km2⁵. Infrastructure, transport modes, and energy resources might look differently, and this must be acknowledged in the EU Taxonomy, while also steering the union towards the climate targets.

⁵ Source: https://eacea.ec.europa.eu/national-policies/eurydice/content/population-demographic-situation-languages-and-religions-80_en_

Policy recommendations

The Haga Initiative,

- Welcomes the Carbon Border Adjustment Mechanism (CBAM); underlining that the purpose of it should be to spur climate action globally and not be protectionist;
- Welcomes the Carbon Border Adjustment Mechanism because it creates a level playing field for competitive industries and contributes to putting a price on carbon emission worldwide;
- Proposes that the Carbon Border Adjustment Mechanism should be regarded as an alternative, rather than complement, to today's free allocation as long as the free allocation is phased out in a predictable way;
- Strongly advises that each Member State, in addition to legislation on circularity, should decide on taxes that gain circularity since virgin materials are often more competitive;
- Reminds that the EU Taxonomy is needed and the first step towards transparent, green financing and sustainable investments;
- Bioenergy and biofuels should be regarded as long-term, green investments;
- Calls upon that the decision-making process must always be transparent and give stakeholders adequate time to secure the democratic process and contribute to the climate transition. This is important in all EU processes but especially regarding the EU Taxonomy, which will affect investments for decades;
- Conscious about that Member States have different opportunities and possibilities; what is regarded as sustainable usage of natural resources will look differently in the Member States. The Taxonomy needs to be flexible and acknowledge the regional differences while also contribute to the 2030 climate targets and not harming the environment;
- Stresses that the taxonomy will most likely set new standards for other directives and regulations. The Taxonomy must balance between pushing the climate transformation and acknowledge current legislation which also contributes to it.
 RED II and the state aid guidelines are two examples of legislation that should be leading the Taxonomy;
- Emphasizing that the EU Taxonomy aims to make it easier for investors and their customers to make well-informed decisions and comparisons of green investments. One challenge related to the taxonomy is that it initially will have a limited application capability. As of now, it only includes definitions and sustainable strategies for nine different industries. This will over-time change and develop.

