

Case Study: Swedbank - Application of the EU Taxonomy for a vertically integrated small-scale company involved in cogeneration from bioenergy in the Baltics

Introduction

This case study was selected to explore the application of the EU Taxonomy for a company involved in the production of electricity and heat and crop growing in the Baltics using the Taxonomy's climate change mitigation criteria. The analysis has helped to understand more thoroughly the criteria behind the Taxonomy, the internal process development needs and data availability issues.

Case description

Swedbank explored the possibility of giving a corporate loan to a biogas company in the Baltics involved in cogeneration from biogas and crop growing activities. The company produces corn and grass silage that is used as feedstock for biogas production. Other feedstock for cogeneration comes from diversified external sources, including wastewater sludge and slurry. Around 50% of the feedstock is produced internally. The company also produces other agricultural products (wheat, rape etc.) that is sold to third parties. The loan would be used for CAPEX refinancing. All the CHP plants are highly efficient and were installed a decade ago by a leading EU supplier. Around 70% of the turnover comes from the sale of electricity and heat.

Based on the nature of the business activities and EU Taxonomy classification, the following activities were considered: (1) Manufacture of Biomass, Biogas or Biofuels; (2) Production of Electricity from Bioenergy; (3) Production of Heat from Bioenergy; and (4) Growing of non-perennial crops. These activities are considered to make a substantial contribution to Climate Change Mitigation.

As the company is LLC limited, information is available publicly, therefore, the analysis was performed based on information provided by the customer for the credit committee. No additional information was requested for the analysis as it is not foreseen in the bank's existing processes and procedures. As the company is located in the EU, it was assumed that the customer is meeting requirements set by the EU and local regulation, therefore, not all the Do Not Significant Harm categories were thoroughly analysed.

EU Taxonomy requirements

The table below summarises the assessment for the main requirements for the company's activities.

Activity	Manufacture of Biomass, Biogas or Biofuels (1)	Cogeneration from bioenergy (2, 3)	Growing of non-perennial crops (4)
Substantial contribution	<ul style="list-style-type: none">Reviewed the Directive 2018/2001. Part of the feedstock used by the company is compliant with directive. Around 52% of the feedstock is considered eligible.	<ul style="list-style-type: none">Not enough information to evaluate whether facilities operate above 80% threshold as set out in RED II.Feedstocks partly meet the criteria of eligibility.	<ul style="list-style-type: none">Not enough information to assess whether operations meet Taxonomy's Climate Change Mitigation criteria.
Do No Significant Harm <i>Adaptation</i>	<ul style="list-style-type: none">The activity seems to be resilient to climate change as many forms of feedstock could be used, including wastewater sludge.The activity does not affect the effort of others.	<ul style="list-style-type: none">The activity integrates physical and non-physical measures aimed at reducing all material risks that have been identified through a climate risk assessment.The activity does not affect the effort of others.	<ul style="list-style-type: none">The activity seems to be resilient to climate change as the crop growing season in the region is expected to increase significantly based on local weather forecast agency.The activity does not affect the effort of others.

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<i>Water</i>	<ul style="list-style-type: none"> As the company operates in the EU, it is assumed that the company fulfils the EU water legislation. Not enough information to analyse whether the company has sufficient water management systems. 	<ul style="list-style-type: none"> As the company operates in the EU, it is assumed that the company fulfils the EU water legislation. Not enough information to analyse whether the company has sufficient water management systems. 	<ul style="list-style-type: none"> As the company operates in the EU, it is assumed that the company fulfils the EU water legislation. Not enough information to analyse whether the company has sufficient water management systems.
<i>Circular economy</i>	<ul style="list-style-type: none"> Each of the stations has a digestate storage lagoon. The digestate is a by-product of the fermentation process, which is further used in agricultural business instead of mineral fertilizers. It is assumed that it complies with national rules on fertilizers. 	<ul style="list-style-type: none"> It is assumed that the company has implemented waste management measures aligned with the Commission's Implementing Decision (EU) 2017/1442. The company has CHP plans smaller than 50 MW, therefore, not applicable. 	<ul style="list-style-type: none"> The company fertilizes crops using the by-product from the cogeneration process, which reduces the demand for primary resources and increases the efficiency. Not enough information to analyse the loss of nutrients leaching out from the production system into the environment.
<i>Pollution</i>	<ul style="list-style-type: none"> There are gas-tight covers on the digestate storages. 	<ul style="list-style-type: none"> Emissions to air, water and soil are prevented / minimised by employing the Best Available Techniques. The company has small CHP (1-2 MW). The relevant emission levels could not be analysed due to lack of data. 	<ul style="list-style-type: none"> The company uses organic fertilizers. However, whether the application is targeted is not known. Not known whether uses plant protection products with active substances that ensure high protection of human and animal health and the environment.
<i>Ecosystems</i>	<ul style="list-style-type: none"> The company confirms that it is working in compliance with existing legislation, thus, also assuming that the Environmental Impact Assessment (EIA) has been completed in accordance with the EU Directives on Environmental Impact Assessment (2014/52/EU) and Strategic Environmental Assessment (2001/42/EC). The company's operations are not located near to biodiversity-sensitive areas. 	<ul style="list-style-type: none"> The company confirms that it is working in compliance with existing legislation, thus, also assuming that the Environmental Impact Assessment (EIA) has been completed in accordance with the EU Directives on Environmental Impact Assessment (2014/52/EU) and Strategic Environmental Assessment (2001/42/EC). The company's operations are not located near to biodiversity-sensitive areas. 	<ul style="list-style-type: none"> The company grows only native species. The company's activities do not result in the decrease of the diversity of species nor contravene the conservation objectives. Not enough information to analyse whether the company ensures the protection of soil.
Minimum safeguards	<ul style="list-style-type: none"> The company operates entirely in the EU, where human rights' issues are less common. The company complies with the EU regulation. There are no controversies for the company. Thus, it is concluded that the company meets the minimum safeguarding principles. 		

Assessment

The assessment for parts of the EU Taxonomy was challenging and internal processes should be improved. Some of the Taxonomy's criteria are quite stringent and not part of the existing credit evaluation. For easier adaptation of the assessment, automated tools, at least partly, and data bases, should be available, for example, for minimal social safeguards and parts of DNSH.

For this company only part of the activities (1, 2 and 3) were eligible due to the feedstock type. Furthermore, the exact part of eligibility could change from year to year. Even if we would assume that all the criteria, for which we lack information, are met, the operations would only be partly aligned with taxonomy, mainly, as not all the feedstock for biogas production would be eligible. If we look at last year's feedstock type, then around 52% of the activities could be eligible for activities: 1, 2 and 3 and 100% for crop growing (activity 4). As 80% of the revenue comes from the sale of electricity and heat and the rest from crop sale to external parties, then overall, the company's activities are 65% eligible for the Taxonomy's criteria.

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Challenges

- Data availability – in our existing process the level of detail of specific information is not requested from the clients. The internal processes should be improved by expanding client questionnaires with required information.
- Verifying company's compliance with existing legislation - an analyst's understanding of the relevant legislation should be developed. For easier analysis a short cut for companies based in the EU should be developed.
- Climate Change Adaptation criteria are subjective and hard to analyse as not enough tools are available.

Recommendations

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The Taxonomy's implementation in the current practice will require significant development in the expertise and data systems. The granularity of the data is significant and, thus, just understanding the data needs will require extensive work.

Regulators

It should be specified how and to what extent the fulfilment of the criteria needs to be verified, especially where assessments of companies' – de facto assumable – compliance with existing legal requirements are needed in order to establish the alignment of their activities with the Taxonomy.

Data availability remains an issue due to the high level of granularity especially in the short term (before larger companies become subject to disclosure requirements under the Regulation). Even where the data is indeed available, it is either not easily searchable or must be separately requested from the company itself. A central data registry, or at least a mechanism of some kind, if adequately designed, could solve this. Furthermore, for some data the registries could be at EU level, for example, a list of native and invasive crops in every region.

Moreover, the timeframe for activities' eligibility should be specified as in this case the feedstock eligibility depends on the exact year. It could be discussed whether a three-year average should be used or whether the calculation should be done every year. If the eligibility of activities was analysed every year, then it would increase the regulatory burden.