

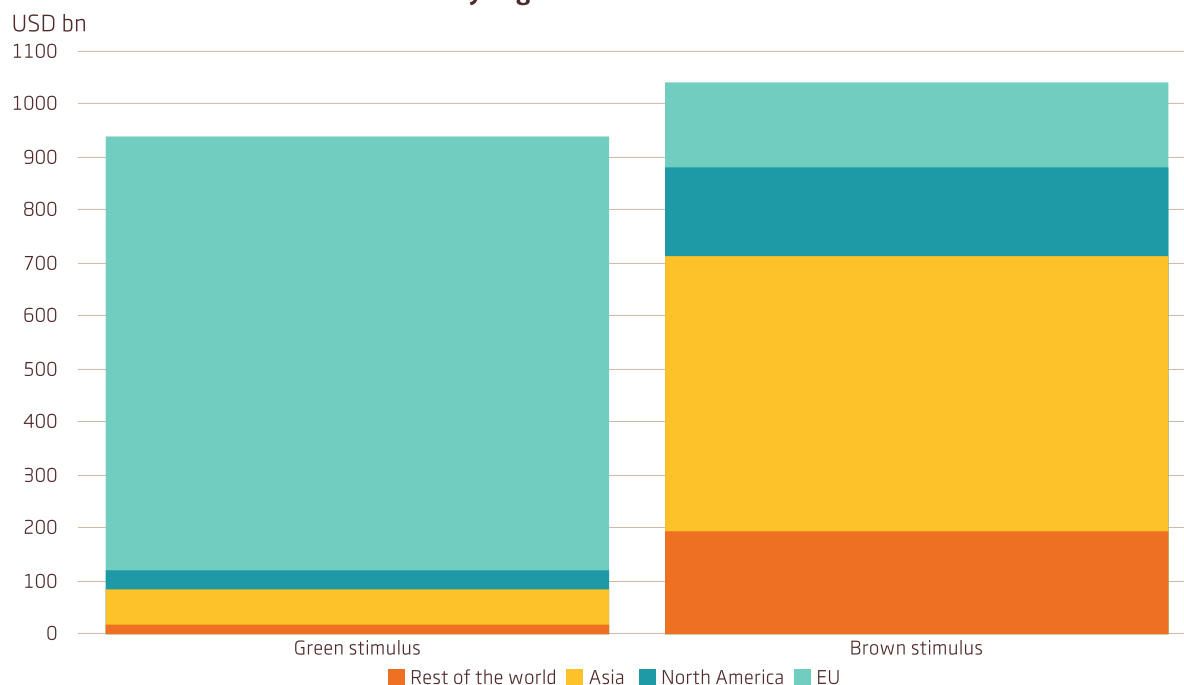
Macro Focus

Another big year for the EU's green policy

Despite the crisis, the EU approved a wave of green reforms in 2020. This year will be crucial for their implementation. If all goes according to plan, the reforms will support green investments, push up the price of carbon and continue to move the markets towards green assets. EU's policy decisions will hardly be the most important global climate news this year: in the US, Joe Biden is trying to turn around US climate policy and push for action internationally, while China's environmental policy for the coming years will be shaped in its next five-year plan. Although these countries account for a larger share of global emissions, what the EU does this year could set an important international blueprint.¹

Last year saw several big steps taken in EU environmental policy: the EU Green Deal Investment Plan was announced, and the member states agreed on a common green taxonomy. The EU Recovery Fund and long-term budget were accepted, including nearly EUR 550 billion in climate spending. Finally, the member states agreed to increase the 2030 greenhouse gas reduction target from 40% to 55% from 1990 levels. While only a tiny share of global crisis spending can be classified as green, the EU has by far the best track record: with the EU recovery fund and long-term budget included, the EU and its member states account for almost 90% of global green stimulus, according to Bloomberg New Energy Finance (BNEF) estimates. In the EU, the announced green stimulus also outweighs support to carbon-intensive sectors fivefold.

Green and fossil intensive stimulus by region



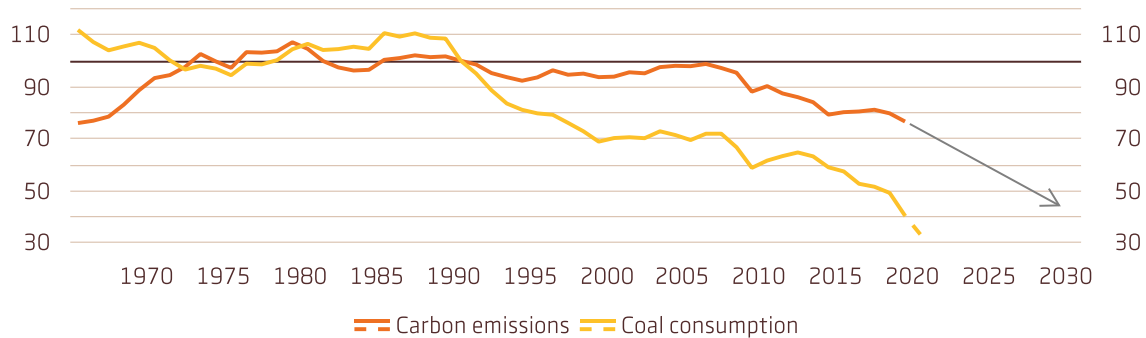
Analyst: Maija Kaartinen, majja.kaartinen@swedbank.se, +46 73 0451197

¹ This analysis is an extract from our January 2021 Swedbank Economic Outlook.

There is already evidence indicating that EU policies are having tangible effects: coal power generation in the EU dropped by 23% in 2019, according to the International Energy Agency (IEA), which estimates a similar decline in 2020. The price of EU Emissions Trading System (ETS) emission allowances rose last year from around EUR 25 per tonne of CO₂ to EUR 33 as a result of increased climate ambition, after an initial drop caused by the crisis. Clean energy investments increased, with big spending in wind and solar power, according to BNEF data on 15 EU countries. Green bond issuance in Europe jumped to record levels in 2020.

EU, coal consumption and carbon emissions

Metric tonnes of CO₂ from fossil fuels and tonnes oil equivalent, index: 1990=100



Assuming an equally large coal use decline in 2019 and 2020. Arrow indicates 2030 emission target.
Sources: BP, Swedbank Research & Macrobond

The year 2021 is poised to be just as crucial. While important decisions were made last year, this year is all about implementation. During the second quarter, the EU Commission will publish proposals for revisions to the EU's climate and energy legislation to align it with the new 2030 emission target. This concerns the EU ETS and a host of other policies, such as vehicle emission standards and energy directives. Proposals related to the EU's circular economy strategy will also be presented this year.

Important dates for the EU's environmental policy in 2021

Date (preliminary)	Event
Delayed (TBA)	Green taxonomy: technical guidelines (climate)
April 30th	Recovery and Resilience Fund (RRF): deadline for member states' plans
	Proposals for most legislation revisions related to new 2030 emission target
Q2	EU ETS: Proposals for reforms
	Proposal for the EU Green bond standard
June	Green taxonomy: detailed disclosure instructions
Mid-2021	The ECB: expected conclusion of strategic review
August	RRF: Member states may start to receive RRF funding (10% share)
September 26	Germany's federal election (Green Party may be part of government)
Q4	Revision of the gas market regulation framework
	Revision of the Energy Performance of Buildings Directive
December 31	Deadline for a report on potential "brown" and social taxonomy
	Green taxonomy: technical guidelines for remaining areas
January 1, 2022	Green taxonomy: reporting requirements on climate start to apply

As part of the EU ETS reforms, the number of new emission allowances added to the system each year will likely be cut, which would push up the allowance price. The planned reforms also include the inclusion of shipping in the system and a so-called border carbon adjustment (BCA), which would place a cost on imported carbon emissions. These proposals could have important geopolitical implications as trading partners, not least China, are likely to oppose them. The BCA will likely also mean that the affected industrial sectors will lose their free emission allowances. Finding agreement on the EU ETS reforms will be tough. In the absence of big disappointments, however, the price of carbon will likely rise further. Coal will, hence, continue to be driven out of the EU power sector.

EU ETS emissions allowance price

EUR/tonne CO2

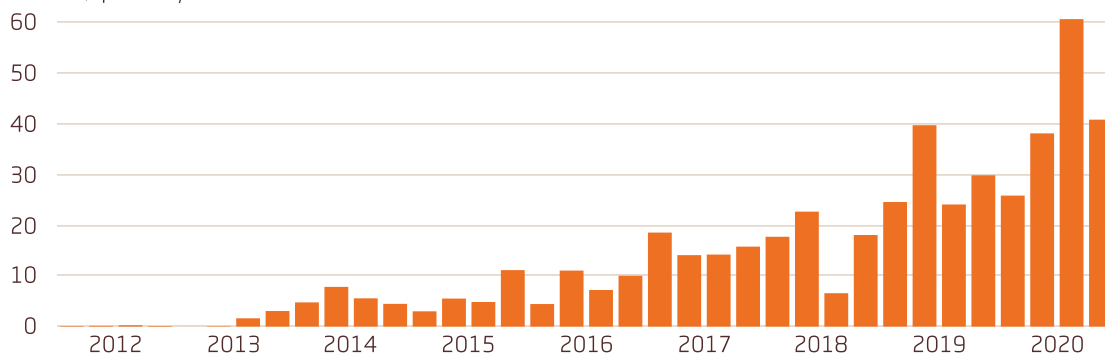


Sources: EMBER, Swedbank Research & Macrobond

By April, all member states must submit plans for projects to be financed from the EU Recovery and Resilience Fund (RRF). Thirty-nine percent of the support must target the green transition. Ten percent of the funding could be paid out already at the end of the summer and the rest in biannual follow-ups until 2026. Funding may be used on activities announced already in 2020, so not all of it will materialise as new projects. The Swedish government, for example, plans to use its share on already announced projects. Still, the Recovery Fund and the EU's long-term budget will add green investments, especially in the less wealthy countries. The boom in green bond issuance will persist, with a big boost from the planned EU green bonds. The Commission will also publish a proposal for an EU green bond standard.

Green bond issuance in the EU

USD bn, quarterly



Note: Includes data on 23 EU countries
Sources: BNEF, Swedbank Research & Macrobond

The aim of the EU's green taxonomy is to give common definitions to green investments and to help channel funding to such projects. By 2022, all firms listed in the EU with more than 500 employees must

disclose their activities according to the taxonomy. Financial market actors must also start to report the "green" shares of their investment products. The Commission was planning to finish technical criteria on the climate-related parts by year-end, but this has been delayed after the Commission's proposal drew a massive amount of feedback from stakeholders. The final criteria can be expected to take at least until March to finish. Details on remaining areas, such as pollution and biodiversity, are to be finished this year.

The taxonomy will likely amplify existing market trends towards green investments, lowering financing costs to such sectors. However, the detailed criteria will also leave out some projects currently branded as green. Going forward, the taxonomy will be used by international investors, credit institutes, and, likely, the ECB and other central banks in their screening for green investments. It could therefore cause considerable movements in asset prices over time. The Commission is also assessing a potential social taxonomy and a "brown" taxonomy on environmentally harmful investments. With the publication of the ECB strategic review this year, central banks' climate action will also stay high on the agenda.

The focus of policymakers will shift from the immediate crisis to post-crisis recovery. In some countries, this could mean additional funding for green investments, while concern over fiscal consolidation could mean that support will dry up in others. Political splits between member states risk flaring up, and it will be difficult to find agreement on environmental policies without the promise of big EU funding. The hope is that more and more member states also perceive economic benefits linked to the green transition. While the EU's green plans continue to meet challenges, it should be kept in mind that 2020 already exceeded expectations.

Swedbank Research's disclaimer

This report has been compiled by analyst(s) at Swedbank Macro Research, a unit within Swedbank Research that belongs to Swedbank Large Corporates & Institutions ("LC&I"). Macro Research are responsible for preparing reports on economic developments in the global and domestic markets. Macro Research consists of research departments in Sweden, Norway, Finland, Estonia, Latvia, and Lithuania.

What our research is based on

Swedbank Macro Research bases the research on a variety of aspects and analysis. For example: A fundamental assessment of the cyclical and structural economic, current or expected market sentiment, expected or actual changes in credit rating, and internal or external circumstances affecting the pricing of selected FX and fixed income instruments. Based on the type of investment recommendation, the time horizon can range from short-term up to 12 months.

Recommendation structure

Recommendations in FX and fixed income instruments are done both in the cash market and in derivatives. Recommendations can be expressed in absolute terms, for example attractive price, yield or volatility levels. They can also be expressed in relative terms, for example long positions versus short positions. Regarding the cash market, our recommendations include an entry level and our recommendation updates include profit and often, but not necessarily, exit levels. Regarding recommendations in derivative instruments, our recommendation include suggested entry cost, strike level and maturity. In FX, we will only use options as directional bets and volatility bets with the restriction that we will not sell options on a net basis, i.e. we will only recommend positions that have a fixed maximum loss.

Analyst's certification

The analyst(s) responsible for the content of this report hereby confirm that notwithstanding the existence of any such potential conflicts of interest referred to herein, the views expressed in this report accurately reflect their personal views about the securities covered. The analyst(s) further confirm not to have been, nor are or will be, receiving direct or indirect compensation in exchange for expressing any of the views or the specific recommendation contained in the report.

Issuer, distribution & recipients

This report by Macro Research is issued by the business area LC&I within Swedbank AB (publ) ("Swedbank"). Swedbank is under the supervision of the Swedish Financial Supervisory Authority (Finansinspektionen). In no instance is this report altered by the distributor before distribution.

In Finland this report is distributed by Swedbank's branch in Helsinki, which is under the supervision of the Finnish Financial Supervisory Authority (Finanssivalvonta).

In Norway this report is distributed by Swedbank's branch in Oslo, which is under the supervision of the Financial Supervisory Authority of Norway (Finanstilsynet).

In Estonia this report is distributed by Swedbank AS, which is under the supervision of the Estonian Financial Supervisory Authority (Finantsinspektioon).

In Lithuania this report is distributed by "Swedbank" AB, which is under the supervision of the Central Bank of the Republic of Lithuania (Lietuvos bankas).

In Latvia this report is distributed by Swedbank AS, which is under the supervision of The Financial and Capital Market Commission (Finanšu un kapitāla tirgus komisija).

This document is being distributed in the United States by Swedbank and in certain instances by Swedbank Securities U.S. LLC ("Swedbank LLC"), a U.S. registered broker dealer, only to major U.S. institutional investors, as defined under Rule 15a-6 promulgated under the US Securities Exchange Act of 1934, as amended, and as interpreted by the staff of the US Securities and Exchange Commission. This investment research is not intended for use by any person or entity that is not a major U.S. institutional investor. If you have received a copy of this research and are not a major U.S. institutional investor, you are instructed not to read, rely on or reproduce the contents hereof, and to destroy this research or return it to Swedbank or to Swedbank LLC. Analyst(s) preparing this report are employees of Swedbank who are resident outside the United States and are not associated persons or employees of any US registered broker-dealer. Therefore, the analyst(s) are not subject to Rule 2711 of the Financial Industry Regulatory Authority (FINRA) or to Regulation AC adopted by the U.S. Securities and Exchange Commission (SEC) which among other things, restrict communications with a subject company, public appearances and personal trading in securities by a research analyst.

Any major U.S. Institutional investor receiving the report, who wishes to obtain further information or wishing to effect transactions in any securities referred to herein, should do so by contacting a representative of Swedbank LLC. Swedbank LLC is a U.S. broker-dealer registered with the Securities and Exchange Commission and a member of Financial Industry Regulatory Authority and the Securities Investor Protection Corporation. Its address is One Penn Plaza, 15th Fl.,

New York, NY 10119 and its telephone number is 212-906-0820. For important U.S. disclaimer, please see reference:

<http://www.swedbanksecuritiesus.com/disclaimer/index.htm>

In the United Kingdom this communication is for distribution only to and directed only at "relevant persons". This communication must not be acted on – or relied on – by persons who are not "relevant persons". Any investment or investment activity to which this document relates is available only to "relevant persons" and will be engaged in only with "relevant persons". By "relevant persons" we mean persons who:

- ▶ Have professional experience in matters relating to investments falling within Article 19(5) of the Financial Promotions Order.
- ▶ Are persons falling within Article 49(2)(a) to (d) of the Financial Promotion Order ("high net worth companies, unincorporated associations etc").
- ▶ Are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) – in connection with the issue or sale of any securities – may otherwise lawfully be communicated or caused to be communicated.

Limitation of liability

All information, including statements of fact, contained in this research report has been obtained and compiled in good faith from sources believed to be reliable. However, no representation or warranty, express or implied, is made by Swedbank with respect to the completeness or accuracy of its contents, and it is not to be relied upon as authoritative and should not be taken in substitution for the exercise of reasoned, independent judgment by you.

Be aware that investments in capital markets – such as those described in this document – carry economic risks and that statements regarding future assessments comprise an element of uncertainty. You are responsible for such risks alone and we recommend that you supplement your Decision-making with that material which is assessed to be necessary, including (but not limited to) knowledge of the financial instruments in question and the prevailing requirements as regards trading in financial instruments.

Opinions contained in the report represent the analyst's present opinion only and may be subject to change. In the event that the analyst's opinion should change or a new analyst with a different opinion becomes responsible for our coverage, we shall endeavour (but do not undertake) to disseminate any such change, within the constraints of any regulations, applicable laws, internal procedures within Swedbank, or other circumstances.

If you are in doubt as to the meaning of the recommendation structure used by Swedbank in its research, please refer to "Recommendation structure".

Swedbank is not advising nor soliciting any action based upon this report. If you are not a client of ours, you are not entitled to this research report. This report is not, and should not be construed as, an offer to sell or as a solicitation of an offer to buy any securities.

To the extent permitted by applicable law, no liability whatsoever is accepted by Swedbank for any direct or consequential loss arising from the use of this report.

Conflicts of interest

In Swedbank Macro Research, a unit within Swedbank Research, internal guidelines are implemented in order to ensure the integrity and independence of the research analysts. For example:

- ▶ Research reports are independent and based solely on publicly available information.
- ▶ The analysts are not permitted, in general, to have any holdings or any positions (long or short, direct or via derivatives) in such Financial Instruments that they recommend in their investment analysis.
- ▶ The remuneration of staff within the Swedbank Macro Research department may include discretionary awards based on the firm's total earnings, including investment banking income. However, no such staff shall receive remuneration based upon specific investment banking transactions.

Planned updates

An investment recommendation is normally updated twice a month. This material may not be reproduced without permission from Swedbank Research, a unit within LC&I. This report is not intended for physical or legal persons who are citizens of, or have domicile in, a country in which dissemination is not permitted according to applicable legislation or other Decisions.

Produced by Swedbank Research, a unit within LC&I, Stockholm.

Address

Swedbank LC&I, Swedbank AB (publ), SE-105 34 Stockholm.

Visiting address: Malmkillnadsgatan 23, 111 57 Stockholm.