



Forest Industry's  
current EU affairs

2021

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# THE FOREST INDUSTRY AND ITS PRODUCTS ARE THE SOLUTION

The continuing COVID-19 pandemic affects people's lives and the business operating environment in many ways. The implementation of the EU's recovery package, NextGenerationEU, is underway, and the major investment in the green transition it involves is relevant from the forest industry's viewpoint. It is important for the forest industry that the package is implemented efficiently, with a focus on enterprises, and with a technology neutral approach. At the European level, however, it must be ensured that the recovery measures do not distort competition.

The forest industry's products, made from renewable raw materials, and the sustainable forest management that facilitates their production, have the potential to offer significantly higher climate benefits at the global scale than at present, and foster economic growth in Europe.

The European Commission launched its massive climate policy proposals, known as the Fit for 55 -package, in the summer. The package includes numerous highly detailed regulations that affect the forest industry. Unfortunately, the legislative proposals lack, in many respects, an understanding of the economic use of forests, and the climate benefits that the forest sector produces. It is important to ensure that the details will be specified during future preparation, in a way that safeguards Finland's competitiveness and takes the potential of forest industry products into consideration.

The green industrial transition, outlined in the European Commission's Green Deal, is steered based on the European Industrial Strategy, updated in spring 2021. Like the bioeconomy at large, the forest industry is notably neglected in it. The EU justifies this with the existence of the separate Bioeconomy Strategy, adopted in 2018. The problem is that the implementation of the Bioeconomy Strategy is currently limited to the domain of research policy and measures

only, abandoning industrial bioeconomy in a policy void. The Finnish Forest Industries Federation finds this situation particularly problematic because industry-friendly strategies are very much needed alongside the EU's highly pro-environmental policy drivers.

The results of a survey, conducted by the Finnish Forest Industries Federation in early August 2021 among Finns, about their attitudes towards the sector and the European Union, indicate that more than 80 % of the respondents consider the sector to be an important source of employment and wealth for the whole of Finland. In fact, 74 % of Finns agree, or quite agree that it is up to our decision-makers to defend the preconditions of the forest industry in the EU.

In this publication, we have assembled the forest industry's most topical advocacy issues in the EU. Our experts will be happy to provide further information.



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# ECONOMY AND INTERNATIONAL TRADE

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## SUSTAINABLE FINANCE

# SOLUTIONS FOR MEETING THE GOALS OF SUSTAINABLE FINANCE

**Sustainable finance is a prominent element in the Green Deal, the aim being to involve the financial markets deeper in sustainability efforts and to launch sustainable investments. Forest companies offer solutions for proceeding towards the important and bold environmental goals of sustainable finance. These include climate change mitigation, promotion of the circular economy, and protection of biodiversity.**

Sustainable finance regulation applies to the forest industry in many ways, because the aim is to steer more private capital towards sustainable projects. In order to ensure that the Finnish forest sector is recognised as a sustainable and attractive investment target even from the perspective of the EU's sustainable finance regulation, the sector wants to participate actively in the development of regulation.

The purpose of the EU's unified classification system ('taxonomy') is to specify what type of economic activity can be considered environmentally sustainable. That is why the taxonomy is in many ways fundamental to sustainable finance. The preparation of more detailed sustainability criteria for it will continue in 2021 and 2022. The sustainable finance expert working group has also considered an expansion of the taxonomy, but in the forest industry's opinion, the process should focus on the balanced preparation of existing proposals for criteria.

EU regulations must develop predictably even with regard to the taxonomy, which must also work meaningfully in practice. In order to ensure these preconditions, preparation completed on a quick schedule should be open and inclusive, because the aim of the new regulation of the financial markets is to influence companies in various lines of busi-

ness. A balanced classification system can help in reaching the goal set for it, that is, to mobilise sustainable investments by providing more information for investors about the climate-related and environmental impact of investments. The forest industry's aim is for the sustainability classification system to be consistent with other EU regulations.

The aim of the updated green finance strategy is to steer the financial markets and companies towards more sustainable operations, using a comprehensive range of measures. Since one of the EU's goals is to enhance transparency, the EU has proposed a new directive on sustainability reporting to update the Non-Financial Reporting Directive. However, all of this may result in a heavier reporting burden for businesses in a way that is difficult to predict. In the forest industry's opinion, overly detailed new instructions and reporting obligations should be avoided.

Overall, the EU should avoid an overly stiff, bureaucratic approach to the regulation of sustainable finance, as it may undermine the willingness to invest and thus slow down achieving the goals of the regulation.

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## EU TRADE POLICY

# TRADE POLICY MUST ENSURE ACCESS FOR PRODUCTS TO THE GLOBAL MARKET

**Via its trade policy, the EU administers its international trade and investment relations and promotes globalisation in line with its values. The European Commission's proposal for the new EU trade policy strategy retains focus on the openness of the markets and emphasises fair and sustainable trade. Parallel to these, the aim is to increase preparedness to defend against unfair competition.**

In February 2021, the European Commission presented its proposals for renewing the EU trade policy. The guiding principle has not changed from promoting open, fair and sustainable international rules-based trade. For the forest industry, it is important to ensure product access to the global market. The forest industry's wood-based products replace products made from non-renewable raw materials that cause higher fossil fuel emissions. Ensuring market access for the products simultaneously promotes the climate benefits they yield.

One of the aims of the EU trade policy is to secure its strategic autonomy. The forest industry supports the EU's aim to create a world that is compatible with its principles, through cooperation, leadership and promoting its values and objectives. The EU must make use of the opportunities of openness while defending its interests by protecting itself against unfair competition, both in the internal market and outside the EU. When necessary, the EU must be able to manage on its own, while collaboration with trade partners still takes precedence.

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**EU TRADE POLICY:** <https://ec.europa.eu/trade/policy/policy-making/>

[https://eur-lex.europa.eu/resource.html?uri=cellar:5b-f4e9d0-71d2-11eb-9ac9-01aa75ed71a1.0001.02/DOC\\_1&format=PDF\(EN\)](https://eur-lex.europa.eu/resource.html?uri=cellar:5b-f4e9d0-71d2-11eb-9ac9-01aa75ed71a1.0001.02/DOC_1&format=PDF(EN))

” Ensuring market access for the forest industry's wood-based products also promotes their climate benefits.

## EU TRADE AGREEMENTS

# TRADE AGREEMENTS TO PROMOTE THE SUSTAINABLE USE OF FORESTS

**EU trade agreements promote market openness and create rules for sustainable and fair international trade. A significant proportion of the Finnish forest industry's production is exported to non-EU countries, and the forest industry also uses imported timber. Established rules and predictability benefit the forest industry's trade and international business.**

EU trade agreements promote market openness, the fairness of operating environments, that is, fair competition, and sustainable trade. The forest industry benefits from jointly agreed binding rules in world trade that also promote the sustainable use of forests.

In summer 2019, the EU and Mercosur, the trade block of four Latin American countries, reached an agreement on the terms of their mutual trade. However, the implementation of the trade agreement has not proceeded and further negotiations on sustainable development are ongoing. Once in force, the EU-Mercosur trade agreement would commit Argentina, Brazil, Paraguay and Uruguay to engage in sustainable trade, while offering EU-based export companies' better access to a market with immense economic potential and more than 270 million people. The agreement would be a first for Mercosur with a significant partner. It would strengthen the EU's global influence and provide competitive advantages for EU companies. The agreement's entry into force would signify a commitment to a rule-based international system in an era characterised by intensifying competition over influence between major powers. In 2020, the value of the forest industry's exports from Finland to Mercosur totaled EUR 68.5 million, and the most important export products were paper and paperboard.

At the end of 2020, the EU and China reached an agreement in principle on a bilateral investment agreement. The agreement requires further negotiations and its entry into force is not in sight, particularly as mutual economic sanctions were imposed in spring 2021. China restricts foreign investments more strictly than the EU. The agreement would balance the situation by opening markets and ensuring more equal operating conditions for EU companies established in China. It is important that the agreement includes obligations following the principles of sustainable development. For example, the agreement would commit China to certain obligations concerning labour standards, the environment and climate. In 2020, the value of the forest industry's exports to China totaled EUR 989 million, and the most important export product was pulp.

The forest industry hopes that the European Union and the United States succeed in strengthening their re-established partnership in international trade, and particularly in updating the multilateral trade system to the 2000s, while developing their mutual trade relations and striving to remove barriers to trade. As matters stand, the export of forest industry products to the United States is primarily free from tariffs, but the distribution of, for example, environment and climate friendly, so-called green products, could be promoted. The forest industry can also benefit indirectly, as trade agreements boost economic growth and the demand for forest industry products. In 2020, the value of the forest industry's exports from Finland to the United States totaled EUR 675 million, and the most important export products were paper and paperboard.

The forest industry accounts for almost one fifth of the total value of Finland's exports of goods. In 2020, the value of forest industry exports totaled EUR 10.4 billion, of which 54 per cent was to non-EU markets, including the United Kingdom. By value, the most important non-EU export countries are China (10 per cent), the United Kingdom (7 per cent), the United States (7 per cent) and Japan (4 per cent). Of the regions, Latin America accounted for 3 per cent of the value of exports, and Asian countries, except China, 12 per cent.

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**EU TRADE AGREEMENTS:** <https://ec.europa.eu/trade/policy/countries-and-regions/negotiations-and-agreements/>

## THE WORLD TRADE ORGANIZATION WTO

# MULTILATERAL COOPERATION IS INCREASINGLY IMPORTANT

**The importance of multilateral cooperation is emphasised as the competition between the major powers of the world intensifies, and the European Commission advocates preserving the WTO as the basic element of the European Union's trade policy. The forest industry supports the reform of the WTO's operations and securing its position as a forum for trade negotiations and for resolving trade disputes.**

The World Trade Organization (WTO) and agreements negotiated within its framework are the basis of the international trading system. In the WTO, members agree on global rules for trade and on removing barriers to trade, share information on their measures that influence trade, and resolve trade disputes. WTO rules apply to approximately 60 per cent of EU trade with non-EU countries and regions.

Despite its strengths, the WTO and the multilateral system of agreements, beneficial for all members, are facing challenges. The parties have not managed to update WTO agreements to meet current needs, and there is room for improvement in compliance with them. Moreover, the criticism targeting dispute settlement resulted in a deadlock of the WTO's Appellate Body for dispute settlement in December 2019.

The Finnish forest industry has benefited from the WTO's dispute settlement. Russia joined the WTO in 2012 but failed to begin complying with its commitment to charge a maximum 5% import duty for certain paper and paperboard products. The EU referred the case to the WTO for dispute settlement. After a two-year process, the case was decided in favour of the EU in 2016. Russia accepted the decision

and lowered the import duties from 10 or 15 per cent to the agreed level.

The European Commission's proposal for a new EU Trade Policy Strategy considerably prioritises the WTO, and the 12<sup>th</sup> WTO Ministerial Conference is scheduled for November–December 2021 in Geneva. The forest industry supports the reform and strengthening of WTO's operations and its agreement system. Sustainable development and sustainability and the European Commission's trade and climate initiative are examples of the Commission's proposals for modernising the WTO. Multilateral cooperation is more important than ever in a situation of intensifying competition between major powers and a backlash against globalisation. The forest industry also supports plurilateral negotiations within the WTO, regarding them as a way to protect the trading system from becoming fragmented. For example, negotiations on trade of green products, that is, products with a positive impact on the environment and climate, should be relaunched, even without the participation of all WTO members. The forest industry considers the initiatives of sustainable development and sustainability, and trade and climate, as examples of the Commission's proposals to modernise the WTO.

International trade is the lifeline of the forest industry. Depending on the product category, up to 98% of the forest industry's production is exported, and 54%, that is, approximately EUR 5.6 billion of the value of the forest industry's exports, was destined outside the European Union in 2020.

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**EU AND WTO:** <https://ec.europa.eu/trade/policy/eu-and-wto/>  
[https://eur-lex.europa.eu/resource.html?uri=cellar:5b-f4e9d0-71d2-11eb-9ac9-01aa75ed71a1.0001.02/DOC\\_2&format=PDF](https://eur-lex.europa.eu/resource.html?uri=cellar:5b-f4e9d0-71d2-11eb-9ac9-01aa75ed71a1.0001.02/DOC_2&format=PDF)

” International trade is  
the lifeline of the forest  
industry.

## EU CARBON BORDER ADJUSTMENT MECHANISM

# THE NEW CARBON BORDER PRICE MUST NOT CAUSE CARBON LEAKAGE

**The objectives of the Carbon Border Adjustment Mechanism, proposed by the European Commission, to reduce global emissions and prevent carbon leakage, are commendable. The proposal does not, however, take non-EU markets into account and may, therefore, result in carbon leakage. Our partner countries' reactions are the forest industry's primary concern.**

The proposal, adopted by the Commission in July 2021, for a new Carbon Border Adjustment Mechanism (CBAM), would impose a carbon border price on five product groups: cement, electricity generation, fertilisers, iron and steel and aluminium. An additional carbon border price would be applicable to the import of certain tariff headings at the EU customs border, based on the actual emissions realised in the production of these products, or their default values. In practice, a number of CBAM certificates, corresponding to the emissions, would have to be purchased for the products, and the price of the certificates would correspond to the average price in the auctioning of emission allowances in the EU. Payment obligations for emissions in the production country would enable a reduction to the carbon border price. In addition, the number of CBAM certificates required would be influenced by the free emission allowances allocated in the EU corresponding to products covered by the carbon border price. During the transitional period from 2023 to 2025, mainly a reporting obligation would apply to imports. The actual payment obligations would enter into force in 2026.

The forest industry finds the objectives of the Carbon Border Adjustment Mechanism commendable but has reservations regarding the carbon border price as a method of

reducing emissions and preventing carbon leakage. The risks include a high administrative burden and the counter-reactions of non-EU countries, without achieving the goals set. One of the problems in the Commission's proposal is that it pays no attention to non-EU markets. The CBAM would not promote an equal and fair operating environment outside the EU, and not quite in the internal market either, which may lead to carbon leakage. No means to ensure a level playing field is offered to extra-EU export of the products included, even as they lose their current protection from carbon leakage. Furthermore, EU production that remains in the EU would be in a weaker position than imports, as the EU emissions trading system would apply to it in full, whilst only a fraction of extra-EU production enters the EU and would be subject to carbon border price.

At this stage, the proposed CBAM does not apply to forest industry products. Our trade partners' reactions, which may target the forest industry as well, are the most direct initial threat posed by the carbon border price. In addition, the inclusion of electricity imported from Russia in the CBAM would have extensive consequences for all electricity consumers, both in terms of the security of supply and possible price increases. According to estimates, the CBAM may render the import of electricity from Russia unprofitable, which, in turn, would further increase electricity prices in Finland, undermine the competitiveness of energy-intensive industry, and counteract the prevention of carbon leakage.

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### **THE EU'S CARBON BORDER ADJUSTMENT MECHANISM:**

[https://ec.europa.eu/taxation\\_customs/green-taxation-0/carbon-border-adjustment-mechanism\\_en](https://ec.europa.eu/taxation_customs/green-taxation-0/carbon-border-adjustment-mechanism_en)

### **NATIONAL REPORT "CARBON BORDER ADJUSTMENT MECHANISMS AND THEIR ECONOMIC IMPACT ON FINLAND AND THE**

**EU": <https://julkaisut.valtioneuvosto.fi/handle/10024/162510>**

# WORKING LIFE ISSUES

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# JUDICIALISATION OF THE PILLAR OF SOCIAL RIGHTS AND MORE REGULATION

**The EU aims by 2030 at increasing the employment rate of 20–64-year-olds to at least 78 per cent, halving the difference in the employment rate between genders, increasing the participation of young people in working life or education, markedly increasing attendance in continuing education, and lowering the number of people at risk of poverty and social exclusion. The Commission is implementing these objectives and legally non-binding principles increasingly through legislative initiatives, particularly in working life regulation.**

In employment issues, the Commission's aim is to extend the EU's competence. This is problematic in terms of cost development control and maintaining highly heterogeneous labour markets. Issues concerning the division of competence between the European Union and Member States have, therefore, become more common, which contributes to emphasising the role of the Council of the European Union in finding compromises on the Commission's legislative proposals.

The national implementation of the Directive on employment terms, including new minimum terms of employment, is in progress in Member States and the Commission's proposals for a directive on adequate minimum wages and pay transparency are now being handled by the Council and Parliament.

The Directive on adequate minimum wages aims to establish minimum wage levels throughout the EU, either through collective agreements or a statutory minimum wage. Wages have traditionally been a national issue and, until now, regulating them has not been considered as falling within the EU's competence. In the Council, France has strived to assume leadership on the issue, but the opinion of several Member States is that the EU's steering methods in wage issues should be recommendations only. For the time

being, the Finnish Government has not clearly concurred with this. It is important for the forest industry that the European Union or governmental authorities do not intervene with agreements on wages and that wages can be determined, and agreed on, individually in companies.

The aim of the Directive on pay transparency is to intervene strictly in the income level difference between genders by enhancing pay transparency. The proposal includes several detailed obligations, relating to various aspects, such as the content of job advertisements (pay/range must be indicated), the assessment tools of tasks, rights of access to information and pay comparisons. The forest industry is critical of this proposal. In practical terms, the proposal would increase the administrative obligations of all companies without succeeding in credibly resolving the problems that certain Member States have with implementing equality regulations. The fact that a working group, led by the Ministry of Social Affairs and Health, is simultaneously preparing higher pay transparency at the national level, does not improve predictability.

The Commission's agenda also includes the working conditions of platform workers and the (collective) negotiating rights of the self-employed. Proposals on these themes are expected in the last quarter of this year. The Commission has also launched consultations for its report on the implementation of the Working Time Directive.

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# RESEARCH, DEVELOPMENT AND INNOVATIONS

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## HORIZON EUROPE PROGRAMME

### FINANCING

## OPPORTUNITIES FOR R&D IN CIRCULAR BIOECONOMY

**Due to the Green Deal, 35% of Horizon Europe funding will be channeled to projects relating to climate goals. In light of the climate goals, the forest industry considers it important that circular bioeconomy, based on the sustainable use of forests, would play a prominent role in setting the thematic priorities for the Horizon Europe programme.**

The European Union's research and innovation framework programmes provide funding for long-term international research activities of businesses, universities and research institutions, as well as opportunities for networking and mobility of researchers. Particularly the activities, funded within the framework of Pillar 2 of the Horizon Europe programme, to increase European industrial competitiveness, are essential in ensuring the rapid introduction of innovations in society. It is important that support continues for research and innovations close to enterprises of all sizes. The only way to ensure the investments necessary for meeting climate goals, is to link enterprises in research and innovation activities.

In the forest industry's opinion, the budget allocated to the programme is insufficient in relation to the objectives defined in the European Green Deal, requiring major research, development and innovation measures. In the budget, EUR 9 billion are earmarked specifically for research relating to food products, bioeconomy, natural resources and the environment.

In addition to research funding, various forms of cooperation and funding instruments for research and innovation activities are crucial. Moreover, the Commission seeks to implement both challenge- and mission-based research and innovation policy. In the forest industry's opinion, this should

be supported. In order to reach sustainability goals, the forest industry considers public and private sector innovation partnerships (PPP), missions and technology platforms as the key procedures for transforming academic research findings into broad-based applications in society driven by companies' innovation activities. In this context, it is vital that when selecting thematic priorities for the Horizon Europe programme, circular bioeconomy based on forests would be taken into account as a key element. Product solutions based on renewable, recyclable, biodegradable materials, acting as a carbon stock, play a key role in the future, which aims at sustainable economic growth with low emissions.

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” Activities to increase European industrial competitiveness are essential.

## INNOVATION FUND

# RISK SHARING FOR INVESTMENT PROJECTS

**In 2020, the EU launched a funding programme for investments aimed at decreasing carbon emissions. The EUR 10 billion Innovation Fund (IF) will receive capital from revenues of the EU Emissions Trading System. Risk sharing will be supported in large investment projects that implement climate goals innovatively in the sectors of renewable energy, carbon capture and storage, energy storage and energy intensive industries.**

” The instrument bridges a large gap in the European innovation funding system.

The forest industry considers the Innovation Fund to be a welcome addition. The instrument that accelerates investments in, demonstrations of and take-up of low-carbon technological innovations bridges a large gap in the European innovation funding system. Previously, the system has not, on the same scale, taken into account the needs of risk sharing relating to the introduction of new technologies, market trials and efforts aiming at commercial scalability. Many of the Innovation Fund's core features act as efficient incentives for investment. The Innovation Fund supports large investment projects of leading companies in particular. An individual company may apply for support and project-specific funding decisions are made for up to 10 years. The Innovation Fund supports technological sectors of strategic significance for the forest industry, which will have positive impacts on the renewal of Finnish industry, and its long-term competitiveness in light of the evolving climate framework. From the forest industry's viewpoint, it is important that projects which apply for support from the IF would primarily be assessed on the basis of expected impacts, and access of various sectors to the application process would not be restricted at any stage, for example on the basis of strict industrial policy criteria.

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**INNOVATION FUND:** [ec.europa.eu/clima/policies/innovation-innovation-fund\\_en](https://ec.europa.eu/clima/policies/innovation-innovation-fund_en)

## EUROPEAN COOPERATION IN ADVOCACY FOR INNOVATION ISSUES

# POOLED STRENGTH FOR HIGHER IMPACT

In research, the forest sector is engaged in European level cooperation. Within the framework of the Horizon2020 programme, the highly successful Bio-Based Industries Joint Undertaking partnership has created significant cross-sector value chain structures for building European circular bioeconomy. Within the framework of the Horizon Europe programme, the Bio-based Industries Consortium administering the programme, and the Commission are negotiating continuing the partnership under the name 'Circular Bio-Based Europe' (CBE). The negotiations concern the focus areas of the strategic research plan of the partnership in particular. The forest industry finds it important that a funding level suitable for capital intensive innovation would be allocated to the partnership, and that forests and other forms of primary production would be taken into consideration as a significant, sustainably managed source of biomass.

In addition to CBE, European forest industry is represented also in the Build4People (construction) and SPIRE (energy and material efficiency) partnerships, with Cepi (Confederation of European Paper Industries) and FTP having joined the partnerships. The new biodiversity partnership is closely monitored as well. A new future opportunity on the EU agenda is a forest-themed partnership, at the initiative of the Finnish Ministry of Agriculture and Forestry, to which the Commission has granted preparatory funding. The Finnish Forest Industries Federation participates in the preparation, in close cooperation with the Ministry of Agriculture and Forestry.

The forest sector's European technology community FTP (Forest-based Sector Technology Platform) strives to cooperate in targeting funding in EU research programmes. FTP covers the entire forest sector from forest owners to the wood product and paper industry. It has presented its

own Strategic Research Agenda 2030, updated its vision for 2040 and compiled the funding opportunities in the Horizon Europe programme, key for the forest industry in 2021–2022, in a guide for interested applicants.

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### **BIO-BASED INDUSTRIES PPP:**

<http://bbi-europe.eu> Bio-based Industries Consortium:

<http://biconsortium.eu> Build4People: <https://build4people.org/> SPIRE:

<https://www.spire2030.eu/> Forest-based Sector Technology Platform (FTP):

<http://www.forestplatform.org/#/>

# THE COMMISSION'S FIT FOR 55 – CLIMATE PACKAGE

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## CLIMATE NEUTRALITY AND A FLOOD OF REGULATIONS

The European Commission's European Green Deal presents ways of reaching the climate targets set, and European Climate Law, with its central idea of achieving climate neutrality, is one of the most important tools. According to estimates, all fossil emissions cannot be removed by 2050, which is why climate-neutrality should be achieved by removing emissions from the atmosphere using a variety of means (technology and carbon sinks).

The Climate Law entered into force in summer 2021, making the climate-neutrality target by 2050 and the 55 per cent minimum emission reduction target by 2030 legally binding. Therefore, the Commission proposes a revision of many parts of legislation and drafting of new legislation. More detailed regulation will be implemented within the framework of the comprehensive Fit For 55 legislative package.

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” The first priority must be an exit from the fossil economy.

## REVISED EMISSIONS TRADING DISTRIBUTES SCARCE RESOURCES

The aim of the emissions trading system is to reduce greenhouse gas emissions on market terms and cost-effectively, in line with the agreed emissions target. For the forest industry, EU emissions trading causes a direct cost burden through the prices of emission allowances, and an indirect cost burden through higher electricity prices. Moreover, the rising prices of emission allowances encourage energy producers to replace fossil fuels with wood-based fuels, which drives upward price pressure for forest industry raw materials. If sufficient protection from carbon leakage is not ensured, these factors undermine the competitiveness of enterprises struggling with global competition.

The Emissions Trading Directive for 2021–2030 entered into force in early 2018, and the Commission is now proposing stricter targets for the EU's current emissions trading system. This will not only raise the prices of emission allowances and lower the number of free emission allowances allocated to industry, but also result in a revision of the related calculation criteria. Emissions trading raises the price of electricity and this impact could continue to be compensated by national decisions. In Finland, the refunds of electricity price increases, implemented on the basis of aid for electrification, seem to remain very moderate. The new Directive proposes an obligation to the recipients of free emission allowances to implement the energy audit projects whose repayment term is five years at maximum. Should they not do so, the number of free emission allowances would be cut by 25 per cent.

From the forest industry's viewpoint, one of the major problems in the Commission's proposal is the revision of the applicability of the rules of emissions trading so that plants using at least 95 per cent biomass would be excluded from emissions trading, instead of the current 100 per cent limit. In practice, this means that these plants will no longer be eligible to receive free emission allowances. The proposal is

contrary to the very ideology of the system because forerunners should be rewarded, not punished. Moreover, the Commission's proposal would mean that the number of emission allowances allocated to the forest industry will be lower, as the current maximum annual cap will rise to 2.5 per cent.

The positive aspect of the Commission's proposal is that biomass, classified as sustainable, will continue to be calculated as a zero-emission source in emissions trading. Therefore, it is important that the Renewable Energy Directive (RED) will give biomass sustainability criteria that classify the current use of wood in Finland as sustainable.

In the forest industry's opinion, the continuous revision of the rules of the emissions trading system unavoidably undermines the competitiveness of industry and obscures the operating environment. The forest industry emphasises that the risk of carbon leakage targeting the industry must be prevented, until a global climate convention, which guarantees equal conditions for competition, has been implemented. The rules for allocating free emission allowances, a carbon leakage list, and compensation of indirect costs are critical.

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” Low emissions should be rewarded, not sanctioned

## SHIPPING, THE LATEST FIELD FOR EMISSIONS TRADING

In the Fit for 55 package, the Commission addresses the maritime sector's emissions through a number of initiatives. The current emissions trading system of industrial plants would extend to maritime transport as soon as in 2023. Shipping companies or parties responsible for operating vessels would be obligated to purchase and return emission allowances partly in 2023–2025. From 2026, the emission allowances would have to be returned in full, without any free allowances being allocated.

Emissions trading in the maritime sector would influence all maritime transport in the EU and its ports and cover 50 per cent of the emissions of journeys to and from the EU. There has been speculation about the reactions of third countries. To ensure a level playing field, it would be crucial that the EU's own solution would effectively lead to global measures as soon as possible, as the International Maritime Organization IMO is negotiating market-based emissions reduction methods in 2023–2030.

For Finnish forest industry the Commission's proposal is problematic, particularly as it does not recognise the special conditions of winter navigation even though the fuel consumption, and therefore emissions, of ice-strengthened vessels are higher. Emissions trading should not result in a situation where competitiveness of shipping from Finnish harbors would relatively weaken due to the ice-conditions. Finland needs to strive for a clear solution in the negotiations to take winter navigation into consideration.

Further cost pressure on shipping is caused by Commission's proposal for mandatory alternative fuel use (FuelEU Maritime) and introduction of minimum taxation of maritime fuels (the Energy Taxation Directive). The initiatives have a considerable joint impact on the cost level and competitiveness of logistics, and a clear intention to mitigate the harmful consequences for competitiveness is needed.

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## NEW PROPOSAL FOR EMISSIONS TRADING FOR ROAD TRANSPORT AND BUILDINGS

Road transport accounts for the majority of transport emissions in the EU. The Commission is proposing to tackle the challenge with a new emissions trading system for road transport and buildings from 2026 onwards. In road transport the emissions trading system would be extended to fuel distributors, so that the sale of fuels would be based on permits with an annual emission cap. The auction would start from 2026 and the Commission is preparing for fluctuations in the new emissions market by proposing a number of stabilisation mechanisms. The social impacts of the system would be addressed by a new social climate fund, funded with incomes from the emissions trading.

New emissions trading system would affect transportation costs similarly as taxation. Risks of overlapping measures and regulation increase, as road transport is remaining within the scope of effort sharing regulation and, thus, national measures such as taxation, at least until 2030. As national targets for emission reductions differ among Member States, it is yet unclear how an EU-wide system and its pricing would work in practice.

The direct and indirect impacts of the European Commission's proposals on companies and the relative competitiveness must be assessed comprehensively before decision-making. The impact assessment provided by the Commission is too narrow and should be completed with assessments by the Member States. Finland should suspend its plans for national emission trading for transport and focus on the proposal from the Fit for 55 package. To maintain Finland's competitiveness in logistics, a clear intent to alleviate the harmful impacts on competitiveness is a must.

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## FINLAND GETS THE LION'S SHARE IN EFFORT SHARING (ESR)

Until now, the so-called effort sharing sector, which includes emissions from transport, housing and waste management among others, has played a key role in the European Union's climate policy. Now, the Commission proposes a separate emissions trading system for two key sectors in the effort sharing sector, road transport and individual heating of buildings. The new system would be separate from the current emissions trading system (large energy producers and energy-intensive industry). Regardless of the new emissions trading system, transport and individual heating of buildings will remain part of the effort sharing sector at least until 2030. In the forest industry's opinion, it is critical to ensure the industry's cost-competitiveness.

The EU-level emissions reduction target for the effort sharing sector would be 40 per cent from the 2005 level by 2030. The emissions reduction targets for each Member State vary from 10 to 50 per cent. This means that the uneven sharing of the burden continues.

Finland's emissions reduction target will be stricter, from 39 per cent to 50 per cent, the highest together with countries like Germany, Sweden and Denmark. Due to the strict target, the pressure to reduce emissions from road traffic, for example, will be high in Finland.

Any excess sinks that may appear in Europe could partly be used to compensate emissions in the effort sharing sector in countries struggling to meet their climate targets. These reserve sinks in the EU could result in forests being used for storage of fossil emissions, but the Commission proposes that the use of the mechanism would be voluntary for Member States.

In the forest industry's opinion, the cost competitiveness of industry in the international operating environment, the supply of wood and adequate prevention of the risk of carbon leakage must be ensured when the nature of the effort sharing sector is changed (expansion of emissions trading)

and a link to forests (reserve sinks) is created. It is important that Finland's sinks will not compensate for the lack of sinks in other countries, or emissions from the effort sharing sector.

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## MEASURES TO SUPPORT THE SOUND GROWTH AND HEALTH OF FORESTS REQUIRED FOR REACHING THE EU CARBON SINK OBJECTIVE

The proposed LULUCF Regulation, issued as part of the Fit for 55 package, determines how the emissions and sinks of land use, land use change and forestry will be included in the EU's climate targets. In the future, the carbon sinks and emissions of the LULUCF sector will play an integral role in reaching the EU's climate targets. The forest industry emphasises the connection and significance of active forestry and wood-based products in combating climate change.

The aim of the Regulation is to steer EU Member States to strengthen their carbon sinks and reduce the emissions from the land use sector. The new overall EU target for carbon removals by natural sinks, proposed by the Commission for the European Union, -310 Mt of CO<sub>2</sub> by 2030, is extremely strict. For the land use sector in Finland, the Commission proposes a carbon sink target of -17.8 Mt of CO<sub>2</sub>.

The Regulation's content is three-tiered. In the first period, 2021–2025, the calculation rules of the current LULUCF Regulation remain in force. In 2025, separate targets for

2026–2029 will be set for Member States, the aim being to reach the target for 2030. After 2030, the methane and nitrous oxide emissions from agriculture from the former effort sharing sector will be combined with LULUCF calculations to form a new land use sector, the AFOLU. The target for the AFOLU sector is to be carbon neutral at the EU level by 2035 and, from then on, carbon negative.

The new carbon sink target proposed for Finland is higher than that estimated for 2030 in the HIIIS project, commissioned by the Finnish Government. Active and timely forest management is key in reaching the proposed carbon sink target. First and foremost, the forest industry emphasises measures that promote the sound growth and health of forests, playing a key role in preventing forest damage as well. Various types of damage already pose a large-scale threat to carbon sequestration in European forests. Particular caution is also required with the planned carbon compensation systems.

The forest industry finds it important that the Commission emphasises wood-based products' ability to sequester carbon. Regrettably, the LULUCF Regulation does not recognise the possibility of replacing products made from non-renewable raw materials with wood-based products, that is, the so-called substitution impact, which is an important measure in combating climate change alongside carbon sinks.

After 2035, the carbon sinks of the AFOLU sector can be used for compensating the emissions from other sectors. The Commission's view is that, in 2050, the AFOLU sector is assumed to sequester the emissions that cannot be reduced through additional measures by other sectors. In subsequent preparations, it must be ensured that the compensation mechanisms do not lead to a situation where the fossil fuel emissions of other EU Member States or other sectors are covered with the sinks of forested countries. The voluntary aspect of the system must be ensured.

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## ACCEPTABILITY OF WOOD USE UNDER SCRUTINY

The Renewable Energy Directive (REDII) establishes the rules for aspects including renewable electricity support schemes, the targets for increasing renewable energy use in heating and cooling, guarantees of origin, the use of renewable energy in transport, and sustainability criteria for biomass. In the forest industry's opinion, the Directive should not be revised again, particularly with regard to the sustainability criteria for biomass.

The original RED II Directive was issued in 2018 and it was due for implementation in summer 2021. The Directive lays down provisions for various aspects including renewable electricity support schemes, the rights and treatment of consumers producing renewable electricity for own use, the permit procedures of production plants using renewable energy sources, the targets for increasing renewable energy use in heating and cooling, guarantees of origin, the use of biofuels and other renewable energy in transport and sustainability criteria for biofuels, bioliquids and solid biomass.

The Directive is now updated to align it with the EU's new 55 per cent target for the reduction of emissions. In addition to raising the target level for renewable energy, the key proposals relate to the use of forest biomass and sustainability criteria as well as the heating and transport sectors.

The Commission's proposal raises the common EU target for renewable energy from 32 to 40 per cent. The Member States would continue to define their own targets in their national climate and energy plans. Finland's current 51 per cent target is estimated to rise to 57 per cent. The obligation based on the energy content of transport would, in the future, be replaced by the obligation to reduce the GHG emission intensity of transport fuels. The GHG emission intensity of transport fuels and electricity should be reduced at least by 13 per cent by 2030.

The proposed indicative target for industry is an annual increase of renewable energy by 1.1 percentage points. In addition, labelling is proposed for industrial products

to indicate the percentage of renewable energy used in production. In the future, guarantees of origin for renewable energy would have to be granted also to production that has received financial support.

Member States would have to take measures to ensure that energy from biomass is produced in a way that minimises undue distortive effects on the biomass raw material market and harmful impacts on biodiversity. To that end, Member States should take into account the waste hierarchy and the cascading principle, which means the resource-efficient use of materials so that woody biomass is primarily used for products and materials instead of energy production. In this context, the term 'quality roundwood' is used. Its characteristics, such as species, dimensions, rectitude, and node density, make it suitable for industrial use. This does not include pre-commercial thinning operations or trees extracted from forests affected by fires, pests, diseases or damage due to abiotic factors.

As to the limit for applying biomass sustainability criteria, the Commission proposes that the threshold for the total thermal output of installations using solid biomass fuels would be lowered from 20 MW to 5 MW, which would extend the criteria to smaller installations, not included in the emissions trading system, such as sawmills. For installations producing electricity, heating and cooling with a total rated thermal input between 5 and 10 MW, Member States should establish simplified verification schemes. The aim is to bring forward the emissions savings of renewable energy produced so that the savings would be at least 70 per cent for all existing installations until the end of 2025, and 80 per cent after that.

significant increases to the so-called risk-based Forest biomass criteria are proposed to secure soil quality and biodiversity, including avoiding harvesting of stumps and roots, as well as harvesting of biomass on vulnerable soils. In addition, large-scale clear-cuts should be minimised, soil compaction in connection with harvesting should be avoided and nationally appropriate thresholds for deadwood should be secured. At the same time, the Commission proposes new no-go areas, where all sourcing of forest biomass

would be prohibited.

In the forest industry's opinion, the recently implemented Renewable Energy Directive should be revised as little as possible to achieve long-awaited predictability in the operating environment.

In the possible extension of sustainability criteria to installations of less than 20 MW, administrative burden on the operators should be avoided. The existing emissions saving requirements concerning energy plants should not be altered retrospectively. Industrial sectors, in which the share of renewable energy is high at present, should not be obligated to increase the share every year.

The forest industry is critical of revising the sustainability criteria of forest biomass. The implementation of the current sustainability criteria is only beginning, and their functionality is therefore unknown. The Commission's proposal for new criteria violates the long-prepared risk-based approach, which was largely accepted as part of the preparation of RED II in the term of the previous Commission. Moreover, some of the new criteria are highly detailed, which undermines national application.

In principle, it is positive that the aim is to channel wood fit for refining to refining, and not, for example, guided by support schemes directly to combustion. In the forest industry's opinion, the cascading principle proposed for woody biomass is important, but the Commission should not prepare legislation for it.

The forest industry also points out that the sustainability criteria for biomass apply to the wood procurement chain of the entire wood processing industry, because woody biomass is not cultivated in Finland for energy production purposes.

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## ENERGY EFFICIENCY (EED) OVERRIDDEN BY EXCESSIVE REGULATION

The Commission's proposal outlines the rules for implementing the principle "energy efficiency first" and ensuring that the energy efficiency objectives are reached in the European Union. In practice, the proposal lists the framework and measures for the purpose of reducing the use of energy. The aim of this is to ensure that the EU can reach its 55 per cent target for reduction of emissions by 2030. In the forest industry's opinion, it is critical to allow increasing use of climate-friendly energy.

The proposal introduces significantly stricter overall targets for EU level energy consumption by 2030 and the targets would become binding at the EU level. This would almost double the targets for energy saving in the EU for 2030. This change is considerable, particularly in view of the fact that none of the Member States seem to be able to reach even the current targets.

The binding EU-level target is distributed to Member States, but the targets are not binding. Should EU-level energy efficiency not improve at a sufficient pace in the Commission's opinion, the Commission may order Member States to improve their energy efficiency and bridge the gap.

According to preliminary calculations by the Ministry of Economic Affairs and Employment of Finland, Finland's energy end-use efficiency in 2030 would be limited to approximately 255 terawatt hours. The figure for 2019 was 301 terawatt hours.

According to the energy savings target in the Directive, Finland should achieve 4.5 terawatt hours of further energy savings annually. The current annual savings target is 2,4-terawatt hours, which means that the new target is dramatically stricter.

The administrative burden on Member States will be heavy, as they must present detailed energy efficiency schemes, plans, implementation and results. Extensive re-

porting and information requirements apply to the industry as well.

The requirements and scope of application concerning energy management systems and energy audits will change so that the obligation is not determined by the size of the company (“large enterprise”) but, using two tiers, by the company’s total energy consumption.

In the forest industry’s opinion, in combating climate change, it is essential to aim for a considerable reduction in emissions, not to restrict energy consumption through detailed regulations, as the proposed Energy Efficiency Directive would do. On the contrary, increasing the use of low-emission energy will facilitate, for example, the electrification of society and industry, the hydrogen economy and the recovery of carbon dioxide. Finland must be able to use a comprehensive, productive energy efficiency commitment system in the implementation of the energy savings target.

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## ENERGY TAXATION (ETD) MUST SECURE INTERNATIONAL COMPETITIVENESS

The Energy Taxation Directive lays down common principles for the taxation of heat, fuels and electricity. The taxation guidelines have previously required a consensus from the EU Member States, but now, on certain environmental grounds, the possibility of decisions by qualified majority is proposed. In the forest industry’s opinion, the decision-making power on energy taxation should remain with each Member State at the national level, instead of decisions by a qualified majority of the Member States. In the forest industry’s opinion, it is

critical to maintain competitive taxation levels for industry.

Since emissions trading already steers industrial emissions towards lower levels, there is no need for overlapping regulation through energy taxation. In terms of combating climate change, it is essential that the current moderate tax treatment of electricity consumed by industry is maintained. In the shutdown of the fossil economy, it is crucial to maintain the current tax-free status of bioenergy and take into account efficient CHP plants as well.

In the forest industry’s opinion, international competitiveness of industry and the risk of carbon leakage must be taken into account in the revision of the Energy Taxation Directive. Therefore, it is important that the levels of taxation for energy-intensive industry, subject to international competition, can continue to be defined so that they differ from the minimum levels of energy taxation.

The proposed Directive would also require similar taxation for transport diesel and petrol fuels, resulting in significant tax pressure on diesel fuel. Likewise, the minimum level of taxation proposed for maritime transport vessels would cause cost pressure on the prices of maritime transport. This would happen in a situation where emissions trading in maritime transport and FuelEU Maritime will also raise the costs of maritime transport, which is of crucial importance to Finland. Finland’s dependence on maritime transport is higher than that of other countries.

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” Climate targets can be reached by increasing, not decreasing, the use of electricity.

# FORESTS

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## EU FOREST STRATEGY

# NATIONAL COMPETENCE ON FORESTS MUST BE RETAINED IN IMPLEMENTATION

**The new EU forest strategy sets out the Commission's objectives for forests and further measures to achieve the Green Deal's objectives. As the primary focus of the strategy is on strengthening biodiversity and forests as carbon sinks, the strategy, unfortunately, does not recognise the forest sector's social and economic significance. The forest industry emphasises a holistic approach to forest use and the importance of national forest policy in the implementation of the strategy.**

The new EU forest strategy strives to expand the EU's decision-making power on forest use to a detailed level, with proposals including recommendations for the content of forestry management plans and more detailed steering of forest management. Furthermore, the Commission wants to broaden the indicators for sustainable forest management, defined by the pan-European Forest Europe process, and control the use of wood for certain purposes according to the cascading principle. The Strategy also includes a legislative proposal for forest information collection and reporting.

In some Member States, the forest sector plays an exceptionally significant role in society, and forest industry products generate prosperity for Europe as a whole. Finland is the most forested country in the EU, and the forest sector has a considerable impact on the national economy.

National competence in forest issues is important in the future. Forests are different and they play a different role in various countries. It is vital that the Commission's competence is not increased indirectly under the environmental, energy, climate and financial policies (including the Biodiver-

sity Strategy, LULUCF, REDIII, taxonomy).

It is good that the Forest Strategy recognises the potential of bioeconomy and wood-based products as a carbon sink, and in partially replacing products made from non-renewable raw materials. Unfortunately, the only benefits of wood-based products taken into account in the Strategy are those related to climate issues. The cascading principle of wood use is important but, in the forest industry's opinion, related legislation should not be prepared.

The production of forest industry products requires a steady and sufficient flow of raw materials from sustainably managed forests. Sustainable and active forest management is an effective method for preventing forest damage and promoting the vitality and growth of forests and their adaptation to changing conditions. Commercial forests provide wood raw material as well as numerous other ecosystem services spanning generations of trees and humans.

The legislative initiative in the Strategy on forest information and reporting is significant. Through the National Forest Inventory, Finland has comprehensive, long-term information on the country's forest resources, forest health and management. Comparable EU-level forest information facilitates balanced and equal monitoring of forests and helps, for example, the prevention of forest damage. The collection of forest information must continue at the national level as part of the National Forest Inventory.

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” Commercial forests provide not only wood as raw material but also a broad range of other ecosystem services spanning generations of trees and humans.

## DEFORESTATION

# FINNISH FOREST INDUSTRY'S WOOD PROCUREMENT DOES NOT CAUSE DEFORESTATION

**Deforestation deteriorates global biodiversity. The Commission's aim is to ensure that the production of products sold in the EU does not cause deforestation. The EU Timber Regulation on the legality of timber will possibly be merged with legislation on deforestation. The forest industry emphasises the significance of sustainable forestry in combating deforestation.**

Globally, almost 80 per cent of deforestation is caused by the increasing production of commodities like soy, beef, palm oil, coffee and cocoa. A legislative initiative on the prevention of deforestation is expected from the Commission by the end of 2021. The methods considered to prevent deforestation include due diligence in delivery chains, the introduction of compulsory product labels, increased reporting obligations for enterprises, and footprint calculations.

The Commission prepared a communication on deforestation in 2019 and in autumn 2020, implemented a consultation on measures to combat deforestation and the EU Timber Regulation. Unfortunately, the Commission will not publish an impact assessment on the contents of the consultation prior to issuing the legislative proposal.

Overlapping legislation must be avoided in considering measures to prevent deforestation. In addition, the key role of voluntary forest certification systems in demonstrating sustainability must not be overlooked. Market-based certification systems are global tools, developed in the long term in broad-based cooperation with various stakeholders.

The forest industry emphasises that forest industry companies play an essential role in responsible and sustainable

action. The Finnish forest industry's wood procurement does not cause deforestation and the forest industry ensures the origin and lawfulness of timber.

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” The forest industry emphasises the significance of sustainable forestry in combating deforestation.

## EU BIODIVERSITY STRATEGY

# BIODIVERSITY STRATEGY DOES NOT RECOGNISE THE SIGNIFICANCE OF SUSTAINABLE FORESTRY

**The aim of the EU's updated Biodiversity strategy is to ensure the revival of biodiversity by 2050. The methods listed in the strategy include a considerable increase in protected areas and restoration of weakened ecosystems. The Biodiversity strategy aims at including biodiversity as a cross-cutting theme in various policy sectors. In the forest industry's opinion, the role of sustainable forestry and best practices of Member States are important in promoting biodiversity.**

It is important to secure biodiversity and take all three pillars of sustainability into consideration. The goals set in the European Union's new Biodiversity Strategy for protecting and restoration of biodiversity are highly ambitious. Unfortunately, the Strategy was prepared without a comprehensive assessment of its economic and social impacts, and the significance of sustainable forestry is not recognised in it.

A legislative proposal on restoration is expected from the Commission in 2021. In the forest industry's opinion, decisions on protection and restoration goals must be made at the national level. The goals should be attained through measures chosen by the Member States and taking the conditions of the Member States into consideration. Instead of directly increasing the areas for protection and restoration, the measures already used in sustainable forestry to promote biodiversity must be taken into consideration. Protection must be targeted at critical sites.

The biodiversity strategy proposes large-scale protection of peatlands, primary and old-growth forests. No additional burden can be placed on Finland just because we have a vast

amount of forests and peatlands in this country. It must be ensured that the measures listed in the Biodiversity Strategy do not threaten the use of wood by the forest industry and any increases in the use of wood. Restrictions imposed on the use of wood would jeopardise both the current production and future investments in circular bioeconomy.

The forest industry emphasises that forest policy is a matter for the Member States to decide at the national level, and this must be reflected in the forest issues and definitions included in the Strategy, such as the definitions of a primary forest and old-growth forest, and the so-called closer-to-nature-forestry.

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” Restrictions imposed on the use of wood would jeopardise both the current production and future investments in circular bioeconomy.

## COMMON AGRICULTURAL POLICY (CAP)

# AGRICULTURAL POLICY MUST FACILITATE A WIDE RANGE OF FORESTRY MEASURES

**In June 2021, Ministers of Agriculture approved a reform of the common agricultural policy for 2023–2027. The agricultural policy even includes measures applicable to forests. The forest industry considers it important that the CAP will continue to facilitate a broad range of forestry measures.**

The new CAP period will start in early 2023 after the Commission has approved the new strategic plans prepared by the Member States.

Even though the EU has no common forest policy, several different EU policies steer the use of forests. The European Union's CAP is one of these policies. Measures related to forests have been part of the common rural development policy (second pillar of CAP), but, in the future, the aid under pillars I and II will be implemented under one national strategic plan. At the national level, the aim has been for the rules to match, whether the measure was implemented as part of CAP, or as a national state aid measure.

CAP steers the guidelines for state aid to the agriculture and forestry sector and rural areas. These guidelines are applied to forestry mainly through the implementation of the Act on the Financing of Sustainable Forestry. The aid based on the Act on the Financing of Sustainable Forestry is entirely based on national public funding.

The forest industry emphasises the key role of the forest sector in creating employment and growth in rural areas. Moreover, wood-based products offer several climate and environment friendly solutions which contribute to the future development of rural areas. The forest industry considers

it important that the CAP will continue to facilitate a broad range of forestry measures, not environmental measures only. Furthermore, state aid rules should be less strict than before, in line with the CAP regulations, and leave room for consideration of national circumstances.

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” Even though the EU has no common forest policy, several different EU policies steer the use of forests.



# LOGISTICS AND TRANSPORT

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# SUSTAINABLE AND SMART MOBILITY STRATEGY CHALLENGES LOGISTICS

**The aims of the European Commission's Sustainable and Smart Mobility Strategy include a green and digital transformation for transport and ensuring resilience to future crises. The strategy, presented in December 2020, seeks to achieve the transformation through an ambitious action plan comprising 82 measures. The Fit for 55 package provided a preview of the scale of the transformation, and more legislation is expected in the next years. For Finland, a country dependent on logistics, it is vital that our special conditions are taken into consideration and competitiveness is ensured under the pressure for change.**

For logistics, one of the most significant reforms in the Strategy is the adoption, in all forms of transport, of carbon pricing based on the polluter pays principle. This is based on the objective, agreed on at the EU level, to reduce emissions from transport by 90 per cent by 2050. The Fit for 55 package proposes an extension to the emissions trading system for shipping, extending emissions trading in aviation and establishing a new emissions trading system for road transport. Moreover, an EU-level reform of energy taxation is proposed by eliminating incentives from the use of fossil fuels in relation to low-carbon and renewable drive powers.

While the aim is to curb the use of fossil fuels by imposing new fees and taxes, the Commission and Member States are facing a true challenge, as low-emission alternatives are needed quickly in the short term. Commission aims at significant shift in transport modes to green traffic by shifting 75 per cent of EU freight traffic to rail and inland waterways. Due to Finland's geographic location, Finland's dependence on maritime transport will continue, but it must be possible to take full advantage of the opportunities provided by other forms of transport as well. In the years to come, EU funding will be available particularly for the development of rail transport and, in this respect, the needs of freight traffic and the forest industry must not be forgotten.

Limit values for heavy vehicle emissions will also be reviewed. The Fit for 55 package is in practice aiming to terminate the manufacturing of combustion engines for passenger cars and vans in the EU by 2035. Heavy transport needs a more varied toolkit that takes into consideration the transport fleet used in Finland, which is heavy and long by European standards. The long-term development towards larger masses and dimensions in Finland has produced excellent results in terms of energy efficiency benefits. The latest surveys indicate that High Capacity Transport has succeeded in reducing fuel consumption and, correspondingly, emissions, by up to 20%. Finland's experiences must be taken into account when the Commission initiates the review of Directive on Weights & Dimensions in 2022. The development of alternative fuel infrastructure must also meet the industry's transport needs in Finland, where distances are long.

As proven by the COVID-19 pandemic, the undisturbed movement of goods and data must be ensured in the internal market even in exceptional circumstances. The aim is to develop the resilience of the EU's transport system in crisis situations by improving the connections of digital and physical infrastructure in particular. The Green Lanes procedure is an example of the internal market's response to facilitating freight transports during the COVID-19 crisis. In fact, the Commission intends to invest in data sharing architectures and compatible interfaces with European Data Spaces and common data rules.

Completion of the Trans-European Transport Network (TEN-T) on schedule, by 2030, remains a key strategic priority for the Commission, and this requires active measures from Finland as well. The Commission pays more attention to the resilience of the infrastructure, and EU funding applications will focus on preparation for disruptions and emergencies, taking the impacts of climate change into account. Likewise, the climate impacts of infrastructure projects must, for the first time ever, be assessed in funding applications using the "do no significant harm" principle.

## **SUSTAINABLE AND SMART MOBILITY STRATEGY:**

[https://ec.europa.eu/transport/themes/mobilitystrategy\\_en](https://ec.europa.eu/transport/themes/mobilitystrategy_en)

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# SUSTAINABILITY, THE ENVIRONMENT AND THE CIRCULAR ECONOMY

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## SUSTAINABLE DEVELOPMENT

# THE FOREST INDUSTRY'S SUSTAINABILITY COMMITMENTS SUPPORT SUSTAINABLE DEVELOPMENT

**The Green Deal is integral to the European Union's actions towards achieving the UN Sustainable Development Goals. The forest industry has plenty to contribute to this.**

The European Commission's aim is to place sustainability and citizens' well-being in the focus of economic policy and the UN Sustainable Development Goals (SDG) in the focus of decision-making and action in the EU. As part of the Green Deal, the Commission intends to modify the European Semester, which provides a framework for the coordination of economic policies across the European Union, by including the UN's SDG in it.

In its sustainability commitments, the Finnish forest industry has made a commitment to contribute to achieving the UN Sustainable Development Goals. The forest industry's sustainability commitments and activities influence the promotion of several SDGs. The forest industry plays a key role for example in promoting sustainable economic growth and sustainable industry and innovations, increasing the volumes of renewable energy, climate change mitigation and implementing the circular economy and the sustainable use of forests.

Cooperation between various parties and partnerships are crucial in achieving the SDGs. Businesses play a key role in the implementation of the goals. Moreover, we must remember to take all elements of sustainability into consideration.

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## EU SUSTAINABLE CORPORATE GOVERNANCE LEGISLATION

# CORPORATE LEGAL CERTAINTY MUST BE ENSURED

**The European Commission has declared that it will issue a proposal for EU-level sustainable corporate governance regulation in October 2021. The aim of the regulation is to promote responsible business and minimise social and environmental harm. Due diligence obligations are at the core of the proposal. The forest industry is in favour of EU-level due diligence regulation, provided that certain boundary conditions are met. National corporate social responsibility initiatives must be avoided.**

The due diligence obligation means that companies must assess and prevent the negative impacts of their business on human rights and the environment, and remedy existing harms or deficiencies. Several national due diligence initiatives in Europe have resulted in creating an unpredictable business operating environment. Moreover, they cause a competitive disadvantage and higher administrative burden on the businesses operating in such countries, compared with businesses operating in countries without any due diligence obligations. Therefore, EU level regulation would be more beneficial than several national initiatives. However, a global solution to a global challenge would be the best way forward. Rules or guidelines are already available for setting binding global rules, including the UN Guiding Principles on Business and Human Rights.

For the European Union's legislative framework to be acceptable, it must meet several boundary conditions. Corporate legal certainty must be ensured and the administrative burden for businesses must remain at a justifiable and reasonable level. The requirements must be specified clearly, and they must be manageable. For example, definitions re-

lating to the environment are often unspecific. The purpose of environmental legislation is not to prevent all harmful impacts of operations on the environment. It is extremely unclear how the limits of due diligence would be defined and by whom. Due diligence should be risk-based and proportionate.

In defining supply chains, it is essential to specify how far down the line of a company's supply chain the due diligence obligation extends. Extending the due diligence obligation, a long way down the line in the supply chain is problematic; for example, from the viewpoint of law enforcement and companies' legal protection. The responsibility for taking action on severe consequences for human rights and the environment, and addressing them, should lie with the party that caused the consequences. It is important that any future due diligence requirements can be supervised by the state authorities.

All considerations on this theme should consider the alternatives based on voluntary measures by companies. Flexibility should be retained because companies should still be able to plan solutions that match their size, line of business, part of supply chain, operating markets and business model. Voluntary due diligence systems provide the best opportunities for flexibility. The current human rights regulations and environmental regulations should be considered, and any overlapping regulation avoided. All EU measures must be in line with international standards and guidelines. The legal framework should not exceed the content of the UN's guiding principles.

It is also important to ensure that the responsibility of governments is not surpassed in human rights and environmental issues. Human rights and environmental issues are regulated by international conventions, the ratification of which is decided on independently by governments. The role of governments in supervising compliance with human rights cannot be given to companies, and it is not their duty to bridge the gaps in regulation and implementation left by local authorities.

European companies' competitiveness must be ensured. The impacts of a potential legal framework, such as for the

competitiveness of companies, must be assessed thoroughly before any new legislation is proposed. Due diligence rules should be applicable also to enterprises of third countries that operate in the EU. The requirements for SMEs should be less strict, but exclusion of SMEs from the scope of the legislation would undermine the legal certainty of larger companies. The impacts on SMEs could be negative if larger companies covered by the legislation were to enter into agreements only with companies covered by the legislation.

The forest industry finds it important that companies investigate the impacts of their operations on human rights and the environment, and minimise the negative impacts. Among others, the UN Guiding Principles on Business and Human Rights is an excellent tool for the purpose. Finnish companies are among the leading operators in the world in terms of corporate social responsibility. For example, more than 150 Finnish companies have signed the UN Global Compact initiative, committing companies to operate in ways that implement the Ten Principles in the areas of human rights, labour standards, the environment and anti-corruption.

Through forest industry responsibility commitments, forest industry companies are committed to equally responsible operations at the national and international level, and to ensuring that the supply chains are responsible. Respect for human rights and taking care of the environment are fundamental elements in the companies' operating principles.

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” National sustainable corporate governance initiatives must be avoided because a global solution to a global challenge is needed.

## ZERO-POLLUTION ACTION PLAN

# GOAL OF A HEALTHY PLANET FOR HEALTHY PEOPLE

**In May 2021, the European Commission adopted the EU Action Plan “Towards Zero Pollution for Air, Water and Soil”. The plan sets out an integrated vision for 2050: a world where pollution is reduced to levels that are no longer harmful to human health and natural ecosystems, as well as the steps to get there. The forest industry supports the targets of the Action Plan in general, but emphasises the reduction measures’ cost efficiency in comparison with their environmental benefits.**

The Action Plan combines all relevant EU policy areas to tackle and prevent pollution, with a special emphasis on how to use digital solutions to tackle pollution. The aim is to review the relevant EU legislation to identify remaining gaps in EU legislation and areas in which better implementation is necessary to meet these legal obligations.

The Action Plan steers the EU towards the 2050 goal, a healthy planet for healthy people. To achieve this, the Action Plan defines key 2030 targets to reduce pollution at source, in comparison to the current situation. These targets include

- improving air quality to reduce the number of premature deaths caused by air pollution by 55%;
- improving water quality by reducing waste, plastic litter at sea (by 50%) and microplastics released into the environment (by 30%);
- improving soil quality by reducing nutrient losses and chemical pesticide use by 50%;
- reducing by 25% the EU ecosystems where air pollution threatens biodiversity;
- reducing the share of people chronically disturbed by transport noise by 30%, and
- significantly reducing waste generation and residual municipal waste by 50%.

In the forest industry’s opinion, it is positive that emissions are assessed purposefully as a whole and the regulation concerning them is reviewed in a more systematic manner than before. The measures taken to achieve the vision must be feasible, taking into consideration the costs for reducing emissions, and the environmental benefits achieved. It is important to focus on emission sources with the most significant environmental impacts. Considerable efforts have been made to reduce industrial emissions in recent years. It is good that other sources of emissions are investigated as well.

In October 2020, the European Commission adopted the chemicals strategy for sustainability. The forest industry supports the simplification of the legal framework for chemicals, and higher transparency in measures concerning chemicals, and the safer and more sustainable use of chemicals. It is important that decisions on chemicals are based on risk assessments.

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” It is important to focus on emission sources with the most significant environmental impacts.

## INDUSTRIAL EMISSIONS DIRECTIVE OVERLAPPING LEGISLATION MUST BE AVOIDED IN THE REVISION

**The Commission will adopt a proposal for a revision of the Industrial Emissions Directive (IED) in the beginning of 2022. The forest industry finds it important that the reform does not create legislation that overlaps with climate or circular economy policies. The revision must take into account the emission reduction measures already taken and ensure the predictability of the investment and operating environment.**

Emissions from industry to air and water are regulated under the Industrial Emissions Directive and sector-specific BAT conclusions which define the best available techniques. The assessment of the Industrial Emissions Directive indicated that it has played a key role in reducing emissions. According to the assessment, the administrative model of the Industrial Emissions Directive, including the preparation process of BAT documents, has been a success and it is regarded as the key legislative instrument of the EU.

The Industrial Emissions Directive and sector-specific BAT conclusions have resulted in a considerable reduction of industrial emissions. Emissions have been reduced greatly even before that. For example, the forest industry in Finland has reduced its nutrient emissions per ton of output by 56%, and particulate emissions by 87% per ton of output since 1992. It is important that the cost impacts of emission reduction measures are reasonable in relation to environmental benefits.

The impact assessment of the updated Directive is underway. The reform addresses, among other things, the sectoral scope of the legislation and how to make it fully consistent with climate, energy and circular economy policies. The impact assessment includes proposals which,

if implemented, would overlap with other legislation and complicate the environmental permit process. An example of this would be the inclusion of GHG emissions in the Industrial Emissions Directive for installations covered by the emissions trading system. Making legislation consistent and interfaces more fluent between various regulations is welcomed, but the forest industry wants to avoid the creation of overlapping legislation. It should be noted that greenhouse gas emissions, climate impacts and circular economy are already included in other legislation. Moreover, energy and waste issues are already reviewed in sector-specific BAT documents.

The purpose of the environmental permit procedure is to prevent local pollution caused by operations. In the forest industry's view, this basic principle should not be changed, as a change would render the BAT preparation process and environmental permit process highly complex. The revision of the Industrial Emissions Directive should aim at its consistent implementation and the development of the process of preparing BAT documents.

Local flexibility, that is, plant-specific consideration in the environmental permit procedure, must not be abandoned. In other words, flexibility in the Directive, such as taking local circumstances and crossmedia effects into account, and the possibility to derogate from BAT emission levels in certain situations, must be retained. The same emission limit or level should not be set by default to all plants.

The investment and operating environment must be predictable. It is vital to ensure the competitiveness of industry in the EU. The Industrial Emissions Directive should provide legal and planning security, essential for the economic operations of the industry. To avoid legal uncertainty, no new review cycle of the BAT documents should be started before the IED revision is finalised. The forest industry's environmental permits have recently been updated on the basis of the BAT conclusions, which were updated a few years ago.

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## CIRCULAR ECONOMY ACTION PLAN

# COMMISSION MUST EMPHASISE THE DIVERSE POTENTIAL OF WOOD RAW MATERIAL

**The Commission published the Circular Economy Action Plan in March 2020. In the forest industry's opinion, the various sections of the plan should emphasise, like the Commission's previous climate vision, A Clean Planet For All 2018, the potential of wood as raw material for a wide range of industrial purposes and products.**

So far, in promoting the circular economy, the Commission has focused on the viewpoint of waste collection, sorting and recycling. The substitution of materials, that is, replacing products made from non-renewable raw materials with ones made from renewable materials, has not been regarded part of the solution. In particular, bio-based fibres, textiles, composites, plastics, energy and construction should be considered as part of the circular economy solution. Regulation should promote the use of these alongside recycling.

In various contexts, the Commission has also considered the obligation to use recycled and other secondary raw materials in products. Such obligations are ill-suited to the use of renewable raw materials. Particularly the collection and recycling of fibre-based products function fairly well already at present, and this has resulted in a very high share of recycled fibre at the European level. The system cannot, however, function without Nordic production based on virgin fibre. The potential obligations, mentioned in connection with the Circular Economy Action Plan, to use recycled content in products would not bring the desired added value, but would change raw material flows and make them more inefficient than at present, particularly with regard to fibre.

Preventing the generation of waste and improving material efficiency lie at the core of the forest industry's operations. Only a few per mille of the raw materials used by the forest industry in Finland end up in landfills. As a whole, the forest industry utilises natural resources efficiently and sparingly, minimises the environmental load of production, and recycles effectively.

It is important that any objectives to prevent the generation of waste are fulfilled by improving self-motivated material efficiency actions, not by preventing economic activity. Compulsory regulation often leads to a worse result.

With regard to products, information provided about products, and potential regulation on that, are related to circular economy. These involve a high risk of complexity in the systems used. To achieve genuine change and impacts, the systems should be sufficiently simple and unambiguous from the viewpoint of businesses.

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” Substitution of materials should be viewed as part of the solution.

## SINGLE-USE PLASTICS DIRECTIVE (SUP DIRECTIVE)

# FOREST INDUSTRY MATERIALS AND PRODUCTS MUST BE RECOGNISED AS ENVIRONMENTALLY SUSTAINABLE SOLUTIONS THAT CAN REPLACE PLASTICS

**The Directive aimed at the reduction of single-use plastic products, known as the SUP Directive (Single-Use Plastics), entered into force in July 2021 with regard to marketing bans and labelling requirements. The Directive imposes restrictions and requirements of varying degrees also on products made from forest industry materials.**

According to the guidelines on the implementation of the Directive, published in June 2021, paperboard cups and take-away food packaging, containing only small amounts of plastic, are fully comparable with all-plastic products and are thus included within the scope of the Directive. Even though these specific products can be used to replace all-plastic products, their use must be reduced at the national level. In addition, as from July 2021, a compulsory label was introduced on paperboard cups to inform users that they contain plastic.

The forest industry has sought to provide the Commission with practical solutions to prevent the industry's products, made from materials to replace plastics, being included within the scope of the Directive. However, the

Commission has determinedly insisted on extremely strict interpretations and definitions that extend the scope of the Directive considerably beyond its original purpose.

Also, the final Guidelines for Implementation, issued in June 2021, are, despite the delay of one year, anything but unambiguous and leave room for interpretation, thus causing additional work and costs for business and industry. The forest industry regrets the fact that the guidelines include both bio-based plastics and plastics manufactured with modified natural polymers, placing them on the same line as traditional plastics. The only exceptions are so-called traditional pulp-based paper and paperboard products, made from natural polymers that have not been chemically modified, and which do not contain plastic. The Directive classifies these as potential alternatives to substitute plastics.

In practical terms, the definitions in the Directive mean that single-use paper or paperboard-based products with a plastic coating or lining on the surface to provide protection against water or fat (a barrier solution), fall within the scope of the Directive. An exception to this are products in which polymers, that meet the definition of plastic in the Directive, are used as retention agents or binders to achieve specific material properties, as well as higher production process efficiencies. Paints, inks and adhesives are also excluded from the scope of the definition of plastic in the Directive.

The forest industry has actively influenced the contents of the Directive's guidelines to have its recyclable and environmentally sustainable fibre-based products made from renewable materials, excluded from the scope of the Directive. Several EU initiatives, including the new Circular Economy Action Plan and the SUP Directive, promote the substitution of materials and products made from fossil, non-renewable raw materials, and encourage recycling and circular economy. In the forest industry's opinion, it is a paradox that already existing, sustainable solutions do not receive favorable treatment.

There is also an imminent risk that the investments of the forest industry and its partners in product development and innovation that replace and reduce the use of plastics will not be rewarded. Regardless of the intended impact,

the greatest risk of the Directive is imminent: plastics will be used even more in products in order to make them “non-single-use”. Correspondingly, the portion sizes of packaging will increase, as will so-called multipacks, to avoid the single-use criterion defined in the Directive. In the forest industry’s opinion, the favorable objectives of the Directive could have been attained by allowing a low limit value for the amount of plastic contained in a product. This would have ensured a considerable absolute reduction in the amount of plastic, without jeopardising food safety and hygiene, and the continuous innovation and product development for the forest industry.

It would be important that the Commission’s proposal, in which the national consumption reduction of plastic products in Article 4 would be measured in the reduction of plastic in tons, instead of reducing the number of products, would be approved by the Member States and the Commission. The forest industry sees the reduction based on the amount of plastic as the only realistic option, and the data required for its reporting is collected through other legislation already at present. In this way, the original aim of the Directive of reducing the use of plastic can also be achieved.

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” The forest industry’s investments in product development and innovation to replace and reduce the use of plastics must not be wasted.

## REVISION OF THE PACKAGING AND PACKAGING WASTE DIRECTIVE

# THE REVISION MUST NOT SET UNREALISTIC TARGETS FOR THE USE OF RECYCLED MATERIAL OR REUSABLE PACKAGING

**The revision of the Packaging and Packaging Waste Directive (PPWD Directive) is underway by the Commission. The need for revision is based on the EU's Circular Economy Action Plan of 2020 and the EU Plastics Strategy: "All packaging in the market must be reusable or recyclable by 2030".**

The Commission is currently conducting an impact assessment for the revised Directive and the Directive proposal is expected in late 2021 at the earliest. The impact assessment and action proposals are divided into topics, of which at least the recyclability and recycled content of packaging, compostable packaging and targets related to reusable packaging apply to the forest industry. Many of the preliminary proposals on various topics, presented by the Commission's consultant in workshops, were challenging or unrealistic, and the forest industry has reacted to these. The Commission itself has expressed more moderate targets for the revised Directive because, to start with, the Directive sets certain restrictions on its scope. Therefore, the Commission may consider legislation also through implementing and delegated acts.

The preliminary proposals for action vary from communication, information and labelling to definitions and binding targets. Basically, the situation is slightly better for fibre-based packaging than, for example, for packaging made from plastic, as many of the preliminary proposals for action

target mainly the latter. For example, fibre-based packaging had provisionally been excluded from the review of biodegradable packaging. However, for example, the targets relating to reusable packaging for various sectors have been completely unrealistic. In the view of the forest industry, reusable packaging must also meet the requirements for recyclable packaging to avoid the risk of non-recyclable packaging being placed on the market on the grounds that it is claimed to be reusable but very rarely reused in practice.

A particular aim of the forest industry is that no mandatory requirement for recycled content is placed on paper and paperboard products, as the market for recycled paper in Europe functions well and the amount of recycled content in packaging made from these materials is already relatively high. The use of recycled content does not lead to the best environmental or economic outcome, but would, at worst, cause disruptions in the recycling markets.

The fundamental idea in the supervision of the interests of the packaging sector is that overpackaging should be prevented by enabling "fit for purpose" packaging and by targeting the whole supply chain.

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” The recyclability and recycling of fibre-based packaging are at a high level in Europe.





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