

# EU Sustainable Finance Taxonomy

## CONSULTATION REPLY ON PROPOSED DELEGATED ACT

### Executive Summary

Properly designed, the Taxonomy is an important policy tool. The proposed delegated act (hereinafter the act) and its technical screening criteria in Annex 1 and 2 (hereinafter the criteria) provide, however, an impediment to the Taxonomy achieving its aims and risks slowing down the societal transition.

By its broad scope and high complexity, the act goes way beyond the ordinary scope of a delegated act. Thereby, the act will be a strong formative element in the future European industry policy.

In its current form, the act does not recognize that sustainably managed forests are by their own right a material contributor to climate change mitigation and adaptation. This is the equivalent to neglecting a positive carbon dioxide (CO<sub>2</sub>) abatement from European forests and forest-based products of more than 800 million tons per annum. Of that, the contribution from the Swedish forest-based sector is above 90 million ton per annum

The act has an immensely high degree of complexity, which makes it very hard for an operator to interpret the proposed criteria, which in turn will make implementation difficult and risks resulting in legal uncertainty. Furthermore, the act also references the need to demonstrate additionality, which requires evidence to illustrate that the activity is not customary. Where sustainable forest management is a customary practice under national law, based on principles defined by Forest Europe, it would by its nature be excluded from the Taxonomy.

Biomass from existing sustainable forest management offers products and solutions that help other industries make the transition to a carbon-neutral economy. By excluding existing sustainable forest management, the forest-based industries' contribution to several European Green Deal objectives will be hampered. This means that the EU is less likely to meet objectives such as greening our building; a clean and circular economy; clean, affordable and secure energy; increased climate ambitions; preserving and restoring ecosystems and biodiversity; clean and smart mobility and green growth.

By only concentrating on NACE codes 02.10 (Silviculture and other forestry activities) and 02.30 (Gathering of wild growing non-wood products), the act does not encompass the full width of existing sustainable forest management.

The Swedish Forest Industries Federation (SFIF) asks for the act to be revised in a transparent and inclusive way. The following concerns need to be addressed:

Throughout the act:

- The complexity of the criteria should be considerably reduced.

In the act's sections referring to forest activities:

- The reference to "improved forest management" should be replaced with "existing forest management".
- NACE codes 02.10-02.40 should be encompassed.

- The criteria outlined by the Technical Expert Group (TEG) in its final report should be reinserted after the following adjustments:
  - It should be clarified that national or sub-national/regional level is adequate for demonstrating forest carbon sink development.
  - It should be defined as voluntary to use a forest management plan (or equivalent instruments) for demonstration of permanence and steady progress.
- Any references to close-to-nature management should be removed, as this concept lacks a scientifically based and broadly agreed definition.
- Any reference to “additionality” should be removed, as this excludes existing sustainable forest management from being sustainable.

In the act’s sections referring to energy:

- Forest-based bioenergy should be classified as other renewable energy sources and not as a transitional activity

## Properly designed, the Taxonomy is an important policy tool

The SFIF acknowledges that, properly designed, the Taxonomy is an important policy tool for the European Union as well as for the Swedish forest industry. The Taxonomy contributes to a fossil-free and climate-neutral economy, which is safe, resilient, resource efficient and circular. Furthermore, the Taxonomy assists businesses in displaying their contribution to sustainable development and directs financial flows to sustainable investments. The Taxonomy can also contribute to create business opportunities as consumers are guided in identifying sustainable options.

## The act oversteps the scope of a delegated act and is too complex

Delegated acts are legally binding acts that enable the Commission to supplement or amend non-essential parts of EU legislative acts, for example, in order to define detailed measures. By its broad scope and high degree of details, the act goes way beyond that scope.

The act will largely define in which industries investments are made and to what extent. Thereby, the act will be a strong formative element in the future European industry policy. SFIF argues that European industry policy must be designed through an open and inclusive political discussion - not through delegated acts.

Furthermore, the degree of complexity makes it very hard for an operator to interpret the proposed criteria, which in turn will make implementation difficult and risks resulting in legal uncertainty.

## The act focuses on forests as sinks, but disregards the total climate benefit

The act focuses on forests as sinks, which does not take into account the total climate benefit of the three S's. These are *Sequestration* of carbon in growing forests, *Storage* of carbon in forests and products and *Substitution* when forest-based products replace fossil-based alternatives. When including all three S's and subtracting own fossil emissions, the Swedish forest-based sector has a positive effect on the global climate equivalent to 93 million tons of carbon dioxide per year<sup>1</sup>. The positive effect of the whole European forest-based sector is 806 million tons<sup>2</sup>.

Biomass from existing sustainable forest management offers products and solutions that help other industries make the transition to a carbon-neutral economy. Products and solutions developed by the forest industry already can and increasingly need to replace fossil-based alternatives and therefore greatly contribute to help other sectors to transition and become more sustainable. Examples of this is to build more in wood, using less steel and concrete. To dress in wood-derived textiles instead of cotton or polyester. And to choose fiber-based packaging instead of plastics.

## Request for additionality excludes existing sustainable forest management

The inclusion in the act of "additionality" means that only measures above or beyond existing forest management can be classified as sustainable. This will exclude existing forest management – and therefore forest land that is already being managed in sustainable and forward-looking ways – from being considered sustainable.

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<sup>1</sup> <https://www.forestindustries.se/siteassets/dokument/rapporter/swedish-forestry-sectors-climate-contribution.pdf>

<sup>2</sup> [https://www.cepi.org/wp-content/uploads/2020/07/Cepi\\_-\\_study.pdf](https://www.cepi.org/wp-content/uploads/2020/07/Cepi_-_study.pdf)

The exclusion of existing sustainable forest management is preventing forest-based products from being considered as sustainable alternatives across other industries, which currently rely on fossil-based alternatives.

By excluding existing sustainable forest management, the forest-based industries' contribution to several European Green Deal objectives will be hampered. This means that the EU is less likely to meet objectives such as greening our building; a clean and circular economy; clean, affordable and secure energy; increased climate ambitions; preserving and restoring ecosystems and biodiversity; clean and smart mobility and green growth.

## **The act does not encompass the full width of sustainable forest management**

When referring to forest activities, the act focuses on NACE codes 02.10 (Silviculture and other forestry activities) and 02.30 (Gathering of wild growing non-wood products), while disregarding 02.20 (Logging) and 02.40 (Support services to forestry). When managing a forest sustainably, activities in all four NACE codes are highly relevant and intertwined.

## **Excluding existing sustainable forest management entails negative financial implications**

The act will reduce the Swedish forest industries' possibility of borrowing using green bonds. According to evaluations done by Swedish banks, no green bonds based on forests will be possible, if existing sustainable forest management is excluded. For any forest-based industry owning forest land, this is a big setback.

The valuation of forest-based companies with large forest holdings could be lowered when existing sustainable forest management is excluded. The consumer/customer perception of these companies will most likely also be negatively affected.

## **National or sub-national/regional level adequate for demonstrating the forest carbon sink development**

As stated in the TEG report on page 73, measurement and reporting shall not result in significant burden to small-scale operators. The report recognized that different scales of reporting are applicable – and already exist for verification and assessment purposes – above the individual holding level. The report also leaves it open to include approaches adopted for instance at the national or sub-national/regional level. According to SFIF, this is necessary for demonstrating forest carbon sink development.

Calculating forest carbon sink development on a 10-year basis, as suggested in the TEG report, requires the overall landscape perspective to be applied, not only the development of an individual holding. To exemplify, while carbon stock is reported to decrease in one area due to harvesting, it is simultaneously increasing in adjacent areas where forests are younger and growing. The overall carbon sink development at national or sub-national/regional level can be positive, but for the individual holding, it can at the same time be negative. If a strict holding perspective is applied, that forest owner will be penalized for a number of years after harvesting as his/her carbon sink is replenishing. The alternative for the forest holder will be to refrain from harvesting, but that would seriously impact his/her financial revenues. It would also mean considerably lower amounts of forest-based products for material substitution, thereby hampering EGD objectives.

In the Land Use Land Use Change and Forestry (LULUCF) Regulation, a landscape perspective is applied on carbon sinks and reporting is done on a national level. This should be guiding also for a revised Taxonomy delegated act.

## **Management plans should only be voluntary**

The Treaty of the Functioning of the EU makes no reference or provisions for an EU forest policy, instead the subsidiarity principle asserts the competence on forest policy to Member States. National Swedish forest legislation do not stipulate that forest management plans are compulsory.

To request a forest management plan (or equivalent instruments) at 10-year intervals, as is the case in the TEG report, and to request that such plan is subsequently reviewed by an independent third-party certifier and/or competent authorities would infringe on national competence on forest policy. Management plans (or equivalent instruments) should therefore only be on a voluntary basis.

## **All references to closer-to-nature forest management should be avoided**

European forests are very diverse depending on for instance geography, altitude, tree species and soil conditions. There is therefore never a one-size-fits-all solution for forest management, instead forests are managed differently in different parts of Europe and measures are adjusted to local conditions.

To exemplify, Swedish forest legislation defines that a forest owner is to secure high and sustainable production (of timber) combined with environmental considerations (biodiversity and ecosystem services), but the legislation does not specifically define what management measures to apply. Instead this is left to the forest owner to decide depending on local conditions.

In the act, the concept of closer-to-nature forest management is introduced extensively. The way the concept is introduced implies that such management is better than other measures. There is, however, no proof of this. Furthermore, the concept lacks a scientifically based and broadly agreed definition. The Commission should therefore refrain from introducing and applying a concept, which is yet to be defined and which risks infringing on Member State competence on forest policy.

## **Bioenergy must be classified equal to other renewable energy sources**

In the act, forest-based bioenergy (power, heat, cooling and transport fuels) is classified as a transitional activity separate from other renewable energy sources and placed together with fossil-based activities. It is difficult to understand why, and what it means for bioenergy, e.g. under which circumstances other alternatives should replace it.

SFIF argues that forest-based bioenergy must be classified as the renewable, carbon-neutral energy source that it is, with long-term relevance as an important component in a carbon neutral energy system, and equal to other renewable energy sources. Moreover, it is important to appropriately relate to current legislation, especially RED2, in terms of sustainability and GHG criteria of the bioenergy.

## **Revision should be carried out in a transparent and inclusive way**

When revising the act, the Commission should do so in a transparent and inclusive way with Member States and other relevant forest-knowledgeable stakeholders. The SFIF is more than happy to contribute in such a revision process.

## About the Swedish forest industry

The SFIF represents the Swedish forest industry, which refine wood resources to bio-based products, such as pulp, paper, board, packaging material, sawn timber, refined wood products and advanced biofuels. The core business for SFIF members is industrial activities based on wood sourced from sustainably managed forests. Among the SFIF members are also some of the largest private forest holdings in Europe.

The Swedish forest industry constitute one of Sweden's most important business sectors. It provides employment throughout the country and accounts for 9 – 12% of the employment, exports, turnover and added value in Swedish industry. As most of the raw materials are domestic and the import of forest industry products is relatively small, SFIF members make a significant contribution to Sweden's balance of trade. The Swedish forest industry is very export oriented. Almost 90 percent of the pulp and paper production is exported. The corresponding figure for sawn timber is close to 70 percent. This places the Swedish forest industry third among the world's exporters of these products. The forest industry directly employs 70,000 people in Sweden and when indirect jobs are included, some 120,000.

During the last decade, the Swedish forest industry have invested more than EUR 10 billion, which corresponds to approximately 20 percent of all Swedish investments in manufacturing industries. With the current proposal for delegated act, none of these investments would be classified as sustainable.

The Swedish forest industry is a forerunner in decarbonizing its own internal processes. Presently these processes are 96 percent fossil-free and efforts continue to become completely fossil-free.