

The background of the entire page is a dense, close-up photograph of stacked wood logs. The logs are cut into various diameters and are arranged in a somewhat regular but overlapping pattern. The wood is a light tan or beige color, showing natural grain patterns and some darker spots or knots. The lighting is even, highlighting the texture of the wood.

Forest Industry's Current EU Affairs

2022

APRIL



We must shift the focus to renewables

As I'm writing this foreword, weeks have passed since Russia launched its invasion of Ukraine. The world political situation has changed, but it is difficult at this stage to assess the full impact on the forest industry of the ongoing war. However, the implications for national, EU and international policy will be far-reaching.

The EU - and Finland as part of it - has condemned the Russian aggression and is using economic sanctions to respond to Russia. Sanctions against Russia have been introduced in stages and already constitute an unprecedented set of measures. At the same time, Russia has taken retaliatory measures and is also making it more difficult for enterprises to exit its market.

The sanctions will have a significant impact on the Russian economy. This was first reflected in a sharp depreciation of the rouble. The war and the sanctions will also affect the economies of EU countries. The depth and duration of the effects will depend on how the situation develops.

The importance of the European Union as a vital economic and political community for Finland and our forest industry will be underlined. For the European Union to increase its self-sufficiency and achieve its climate goals, it must shift its focus from fossil fuels and fossil-based materials to renewable ones. This is where the forest industry can help.

Nevertheless, the Commission's legislative work continues. The Fit for 55 package, published in 2021, contained a lot of very detailed regulation affecting the forest industry. Unfortunately, the legislative proposals largely lacked an understanding of the economic use of forests and the climate benefits of the forest sector. 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 on the basis of the European Industrial Strategy, updated in spring 2021. Like the bioeconomy in general, the forest industry is notably not included in it. With regard to the implementation of the strategy, the situation is brighter. The forest industry is consulted on the design of transition paths for sectors of importance to the industry, such as energy-intensive industries, as well as construction and textile industries. The EU Commission is also considering setting up a European industrial alliance covering the whole wood-based value chain and its wider network of stakeholders. If implemented, the alliance could be seen as a significant breakthrough in EU-level advocacy for the forest industry.

In this publication, we have compiled the most topical advocacy issues for the forest-based industries 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 more deeply 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 as it aims 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 2022.

EU regulations must develop predictably even with regard to the taxonomy. In addition, the taxonomy must also make sense in practice. In order to ensure these preconditions, the fast-track preparation should be transparent and inclusive, as the new financial market regulation aims to have an impact on businesses in different sectors. 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 to more sustainable operations in a comprehensive range of measures. Among other things, the EU wants more transparency. However, the regulation can lead to increased bureaucracy in a way that is difficult to predict. The forest industry believes that new overly detailed guidelines and reporting obligations should be avoided.

In general, the EU should avoid an overly rigid and administratively burdensome approach to regulating sustainable finance, as it may discourage investment and thus slow down the achievement of regulatory objectives.

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” The EU should avoid overly rigid and administratively burdensome regulation.

” **Market access for wood-based products from the forest industry is also about promoting their climate benefits.**

EU TRADE POLICY

Trade policy to ensure product access to global markets

Through trade policy, the EU manages its international trade and investment relations and promotes globalisation in line with its values. The EU’s trade policy aims for market openness and fair and sustainable trade. The EU is also increasing its capacity to protect itself against unfair competition.

The guiding principle of EU trade policy is to promote open, fair and sustainable rules-based international 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 emissions. Ensuring market access for the products simultaneously promotes the climate benefits they yield.

One of the aims of EU trade policy is to secure the EU’s strategic autonomy. The forest industry supports the EU’s aim to create a world that complies with its principles, through inclusion, leadership and promotion of its values and objectives. The EU must make use of the potential of market openness. At the same time, the EU should defend its interests by protecting itself against unfair competition, both in the internal market and outside the EU. Where necessary, the EU must also be able to stand on its own, although co-operation with trading partners is a priority.

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EU TRADE POLICY:

<https://ec.europa.eu/trade/policy/policy-making/>

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 outside the EU, and the industry has also been using imported timber. Established rules and predictability benefit the forest industry's trade and international business.

Through trade agreements, the EU promotes market openness, a level playing field - fair competition - and sustainable trade. The forest industry benefits from commonly agreed binding rules on world trade, which also promote the sustainable use of forests. In addition to negotiating and enforcing agreements, it is important to ensure that existing contractual obligations are respected.

The EU has a pending trade agreement with Mercosur, a trading bloc of four Latin American countries. Progress in this matter will depend on the outcome of further negotiations on sustainable development. The agreement would commit Argentina, Brazil, Paraguay and Uruguay to sustainable trade and express a commitment to a rules-based international system at a time of growing competition for influence between major powers. In 2021, the value of forest industry exports from Finland to Mercosur totalled EUR 60.1 million, with paper and paperboard being the most important products exported.

A bilateral investment agreement with China is also the subject of further negotiations. Its entry into force is not in sight, particularly as mutual economic sanctions were imposed in spring 2021. China imposes more restrictions on foreign investment than the EU. The agreement would balance the situation by opening up 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 a range of labour, environmental and climate obligations. In 2021, the value of forest industry exports from Finland to China totalled EUR 1.36 billion, with pulp being the most important product exported.

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, pro-environmental, 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 2021, the value of forest industry exports from Finland to the United States totalled EUR 813 million, with paper and paperboard being the most important products exported.

The forest industry accounts for almost one fifth of the total value of Finland's exported goods. In 2021, the value of forest industry exports totalled EUR 13 billion. By value, the most important non-EU export countries are China (10%), the United Kingdom (8%), the United States (6%) and Japan (5%). Of the regions, Latin America accounted for 3% of the value of exports, and Asian countries, excluding China, 14%.

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THE WORLD TRADE ORGANIZATION (WTO)

Multilateral cooperation more important than ever

The importance of multilateral cooperation is underlined as competition between the major powers intensifies, and the EU Commission is pushing to keep the WTO as a fundamental element of EU trade policy. The forest industry supports reforming the WTO and safeguarding its role as a forum for trade negotiations and resolving trade disputes.

The World Trade Organization (WTO) and agreements negotiated within its framework form the basis of the international trading system. In the WTO, members agree on the 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. WTO agreements have not been updated for today's needs, and there is room for improvement in compliance. Moreover, due to criticism of its dispute resolution, its Appellate Body has been paralysed since December 2019.

The Finnish forest industry has benefited from WTO dispute settlement. A previous dispute process, which ended in 2016, resulted in a positive outcome for the EU, with Russia reducing its import duties on paper and paperboard products in line with its commitments. In early 2022, the EU launched a new dispute over restrictions on timber exports imposed by Russia before the war in Ukraine. So far, Russia's status as a WTO member has not changed as a result of the war in Ukraine.

The EU's new trade strategy gives considerable weight to the WTO.

The forest industry supports the reform and strengthening of the WTO's functioning and agreement system. Sustainable development and the Trade and Climate initiative are examples of Commission proposals for modernising the WTO. Multilateral cooperation is more important than ever as competition between the superpowers intensifies and globalisation is met with a backlash. The forest industry also supports the multilateral negotiations in the WTO and sees them as a way to safeguard the trade agreement system against fragmentation. For example, negotiations on trade in green products, meaning those with positive environmental and climate impacts, should be relaunched, even if not all WTO members participate.

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. In 2021, more than half of the value of forest industry exports - around EUR 7 billion - was destined outside the EU.

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EU AND WTO: <https://ec.europa.eu/trade/policy/eu-and-wto/>

” International trade is the lifeline of the forest industry.

EU CARBON BORDER ADJUSTMENT MECHANISM

The new mechanism 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. However, the proposal ignores markets outside the EU and could lead to carbon leakage. The forest industry's primary concern is how partner countries are going to react.

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, electricity imported from Russia would be included in the CBAM. Once completed, an assessment of the impact of the carbon border price on imported electricity, commissioned by the Ministry of Economic Affairs and Employment, will give a more complete picture of the impact electricity's inclusion would have on Finland. In general, electricity imports may also be affected by the policy-makers' emphasis on self-sufficiency and security of supply, as uncertainty dominates the future of the relationship with Russia.

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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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EU PILLAR OF SOCIAL RIGHTS

Judicialisation of the social rights pillar and increased regulation

The EU's aims by 2030 include raising the employment rate of 20–64-year-olds to at least 78%, 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 marginalisation. The Commission is increasingly implementing these objectives and its non-legally binding principles through legislative initiatives, notably in the area of labour regulation.

In this area, the Commission is seeking to extend the EU's competence, which is problematic in terms of controlling cost development and the still very heterogeneous labour market. Issues concerning the division of competences between the EU and the Member States have become more frequent, which underlines the role of the Council of the European Union in finding compromises on the Commission's legislative proposals.

National implementation of the EU Directive on working conditions, which includes new minimum terms of employment, is underway in the Member States, and the Commission's proposals for a Minimum Wages Directive and a Pay Transparency Directive are now before the Council and Parliament.

The Minimum Wage Directive aims to set minimum wage levels in the Union, either through collective agreements or through a statutory minimum wage. Wages and salaries are traditionally national issues and have so far been considered to be outside the EU's competence. The Council's general position is that the Directive would not oblige the Member States to legislate on minimum wages or to make collective agreements universally binding. This is very much in line with

the view of the European Parliament. It is important for the forest industry that the EU or governments do not interfere in wage agreements and that wages can be set and agreed on a company-by-company basis.

The aim of the Directive on pay transparency is to intervene strictly in the income level difference between genders by enhancing pay transparency.

The forest industry is critical of this proposal. In practice, the proposal would increase the administrative burden on all companies, without credibly solving the implementation problems of existing equality legislation in some Member States. For predictability, it does not bode well that a working group, led by the Ministry of Social Affairs and Health, is simultaneously preparing to increase pay transparency at a national level in Finland.

The Commission has also set up a project to improve working conditions for workers in the platform economy, based on the EU's social rights pillar. In addition, in the first quarter of 2022, the Commission launched a public consultation on the application of EU competition law to collective agreements on working conditions for sole traders. The proposal for a directive on improving working conditions in platform work contains an employment relationship presumption, according to which there would be an employment relationship if two employment relationship presumption criteria are met. Finland's position is that the distinction between entrepreneurs and employees should not be changed. The forest industry considers Finland's position to be correct, but there is reason to be concerned about the effects of the presumption of employment on entrepreneurship and the operating conditions of platform economy companies in the EU. The forest industry sees no need to amend EU competition law to allow collective bargaining rights for sole traders providing their services through platforms.

In addition to the above, the Commission has also launched consultations for its progress report on the implementation of the Working Time Directive.

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Research, development and innovations

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HORIZON EUROPE PROGRAMME

Funding opportunities for RDI in the circular bioeconomy

With the Green Deal, 35% of Horizon Europe funding will be channelled to projects related to climate goals. In light of the climate goals, the forest industry considers it important that the circular bioeconomy based on sustainable forest use should be strongly represented in the thematic priority choices of the Horizon Europe programme.

The EU's research and innovation framework programmes fund long-term international research activities by 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. Only by involving businesses in research and innovation will it be possible to make the investments needed to meet climate goals.

Of the EUR 95.5 billion budget for Horizon Europe, EUR 9 billion has been earmarked specifically for research on food, the bioeconomy, natural resources and the environment.

In addition to the level of research funding, the different forms of research and innovation cooperation and funding tools are crucial. In addition, the Commission seeks to implement a research and innovation policy based on both challenges and missions. In the forest industry's opinion, this should be supported. The forest industry sees public-private innovation partnerships (PPPs), missions and technology platforms as key ways to effectively bring discoveries based on academic excellence to broad societal use in order to achieve sustainability goals through business innovation.

Particularly important instruments are the recently renewed business-led partnership Circular Bio-Based Europe (former BBI-JU), SPIRE, which promotes the development of process industries, and the Finnish-led Forest Partnership, which is currently in the planning stage and may be launched in 2025. From an advocacy perspective, it is important that the forest-based circular bioeconomy is strongly reflected in the thematic priorities of Horizon Europe. Material and product solutions based on renewable, recyclable, biodegradable and carbon-neutral raw materials are an important part of future sustainable and low-carbon economic growth.

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” The circular bioeconomy must be strongly reflected in the choice of priorities.

INNOVATION FUND

Risk-sharing for investment projects

In 2020, the EU launched a funding programme for investments to reduce carbon emissions. Currently, the EUR 25 billion Innovation Fund (IF) is capitalised with emissions trading revenues, which depend on the price of emissions trading. The funding facilitates risk-sharing in large-scale investment projects pursuing climate goals in the areas of renewable energy, carbon capture and storage, energy storage, and the modernisation of energy-intensive industries.

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. The system has not previously taken into account, to the same extent, the risk-sharing needs associated with the introduction of new technologies, market trials and commercial scaling efforts. Many of the Innovation Fund's core features act as powerful investment incentives. In particular, the Innovation Fund supports large investment projects by leading companies; support can be applied for by a single company, and funding decisions per project can span a period of 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 point of view, it is important that projects applying for support from the Fund are assessed primarily on the basis of their expected impact, and that the eligibility of different sectors is not restricted at any stage, for example on the basis of rigid industrial policy criteria.

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INNOVATION FUND:

https://ec.europa.eu/clima/eu-action/funding-climate-action/innovation-fund_en

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

EUROPEAN COOPERATION IN ADVOCACY FOR INNOVATION ISSUES

Pooled strength for higher impact

In research, the forest sector is engaged in European-level cooperation. Under the Horizon 2020 programme, the highly successful Bio-Based Industries Joint Undertaking has created significant cross-sectoral value chain structures to build a European circular bioeconomy.

Within the framework of the Horizon Europe programme, in 2021, the Bio-based Industries Consortium, which manages the programme, and the Commission negotiated the continuation of the partnership under the name Circular Bio-Based Europe (CBE). The partnership has already started its new season, and the first applications are expected to open this spring. The late start compared to other partnerships was due to ever tightening sustainability-related regulation, which the Commission has insisted should also be reflected in the partnership's research agenda. During the negotiations, the forest industry has stressed the importance of considering forests as an important and sustainably managed source of biomass alongside other primary production.

In addition to the CBE, the European forest industry is also represented in the Build4People (construction) and SPIRE (energy and material efficiency) partnerships, now that CEPI (Confederation of European Paper Industries) and FTP (Forest-based Sector Technology Platform) have joined the partnerships. The new biodiversity partnership will also be closely monitored. A new possibility for the future is the forest-themed partnership, which has been put on the EU agenda by the Ministry of Agriculture and Forestry (MAFF). Its preparatory funding is now under evaluation by the Commission. Finnish Forest Industries and the FTP participate in the preparation in close cooperation with the MAFF.

The FTP, in cooperation with other industry organisations, aims for targeted funding in EU research programmes.

The FTP covers the entire forest sector, from forest owners to the wood product and paper industry. It has published its own Strategic Research Agenda 2030, updated its vision for 2040 and compiled the key funding applications for the forest industry under Horizon Europe for the period 2021–2022 in a single application guide.

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EU RESEARCH PROGRAMMES: <https://cordis.europa.eu/>

BIO-BASED INDUSTRIES PPP: <http://bbi-europe.eu/>

BUILD4PEOPLE: <https://build4people.org/>

SPIRE: <https://www.spire2030.eu/>

BIODIVERSA+: <https://www.biodiversa.org/>

FOREST-BASED SECTOR TECHNOLOGY PLATFORM (FTP):
<http://www.forestplatform.org/#/>

The Commission's Fit for 55 climate package

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Climate neutrality, regulatory gridlock and rising concerns about energy security

The European Commission's Green Deal set out the means to achieve the climate targets. The most important of these is the European Climate Law, with its central idea of achieving climate neutrality. It is estimated that fossil emissions cannot be completely eliminated by 2050. Therefore, climate neutrality should be achieved by removing emissions from the atmosphere through different means (technologies and carbon sinks).

The Climate Law entered into force in summer 2021, making both the climate neutrality target for 2050 and the 2030 emissions reduction target of at least 55% legally binding. Therefore, the Commission proposes a revision of many parts of legislation and drafting of new legislation. More detailed regulation will take place under the comprehensive Fit For 55 legislative package.

In March 2022, the European Commission presented a draft plan "REPowerEU," the main purpose of which is to reduce dependence on fossil fuels, especially from Russia, and to protect European citizens and businesses from rising energy prices. Measures include increasing renewable energy, improving energy efficiency, limiting energy prices, removing investment bottlenecks and supporting energy-intensive industries in the face of energy price shocks.

The plan is likely to affect the content and timing of the Fit for 55 package, as energy prices, availability and self-sufficiency considerations will become more important. For example, biomass may be seen by Member States and the Commission as an increasingly important source of material and energy self-sufficiency. The importance of energy savings is likely to increase in all sectors. So-called solidarity aspects, including the sharing of the burden of emissions reductions and distribution of financial support, may become more prominent in the Fit for 55 negotiations between Member States.

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Revised emissions trading to deal with scarce resources

The purpose of the emissions trading system is to reduce greenhouse gas emissions in a market-based and cost-effective way in line with an 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. The Commission proposed in July 2021 stricter targets for the EU's current emissions trading system. This will both increase the price of allowances and reduce the number of free allowances allocated to industry and open up the criteria for their calculation. Emissions trading raises the price of electricity and this impact could continue to be compensated by national decisions. In Finland, national compensation scheme seems to remain very moderate level. Under the new directive, recipients of free allowances will be required to carry out an energy audit for projects with a payback period of five years or less, or else the number of free allowances will be cut by 25%. On the parliamentary side, too, reports have come up with various proposals for free-sharing obligations, even though the aim is to prevent carbon leakage.

One major problem with the Commission's proposal from the forest industry's perspective is the change in the scope of the emissions trading rules to exclude installations using at least 95% biomass instead of the current 100% limit. In practice, this means that these installations will fall outside the scope of free allocation. The proposal goes against the

whole ideology of the system, which is that pioneers should be rewarded, not punished. In addition, the Commission's proposal will reduce the amount of allowances received by the forest industry by raising the current annual cap to 2.5%.

A positive aspect of the Commission's proposal is that biomass classified as sustainable will continue to count as zero emissions 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. Free allocation rules, a carbon leakage list and compensation for indirect costs are critical.

On the Council side, progress on the emissions trading directive has been slower than in the Parliament. The positions of Member States are still partly open, but the Presidency is already seeking a compromise, especially on technical issues. In Parliament, the votes of the responsible committees are scheduled for April and May.

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Maritime emissions trading is coming

In the Fit for 55 package, the Commission is tackling emissions from shipping through a number of initiatives. Shipping is proposed to be included in the existing emissions trading scheme for industrial installations from 2023. Allowances would be partially surrendered between 2023 and 2025 and fully surrendered without free allocation from 2026 onwards.

Emissions trading in maritime transport would cover all transport between EU ports, emissions while in port and half of all journeys to or from EU ports from third countries.

Shipping is a global industry, and the challenge for regional regulation is to maintain a level playing field. It is essential that, once the EU reaches its own solution, it provides the best possible basis for global developments when the International Maritime Organisation (IMO) negotiates market-based emissions reduction schemes for the period 2023–2030.

The forest industry is particularly concerned that the Commission's proposal does not provide any relief winter navigation, even though the fuel consumption and emissions of ice-strengthened vessels are higher than those of lighter vessels. Emissions trading should not lead to a situation in which Finland's relative competitiveness is weakened due to the special conditions of winter shipping. Shipping from Finnish harbours should stay competitive also in the future. This requires that Finland has a clear solution for winter shipping in the negotiations.

There is also broad support for emissions trading in shipping in the European Parliament, and it is essential that the Parliament also listens carefully to Finland's concerns about the impact of winter shipping on regional accessibility and the competitiveness of ice-strengthened vessels.

There are also cost pressures on maritime transport through the Commission's proposed alternative fuel obligation (FuelEU Maritime) and minimum fuel taxation (Energy Taxation Directive). The initiatives have a significant combined impact on the cost level and competitiveness of logistics, and Finland needs a clear will to mitigate the competitiveness disadvantages.

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Emissions trading for road transport and buildings still in the planning stage

Road transport accounts for the majority of transport emissions in the EU. The Commission is set to tackle this challenge by proposing a new emissions market for road transport and buildings from 2026. Fuels would be sold under a licensing scheme, subject to an annual emissions cap. Auctioning would start in 2026, and the Commission is preparing for the volatility of the new emissions market by proposing a number of stabilisation mechanisms. In addition, the social impact of the scheme is to be mitigated by a social fund financed by emissions trading revenues.

The creation of a new emissions trading market would affect not only emission reductions and fuel costs, but also national transport tax structures. Part of the price of the fuel would be passed on to the EU through emission allowances. At the same time, road transport will remain within the strict emissions reduction targets of the effort-sharing regulation at least until 2030. These objectives are to be met primarily through national measures, such as the bio-distribution obligation and tax changes. In addition, the Finnish Government continues to prepare the national emissions trading scheme for road transport.

Overlapping activities expose the EU to regulatory risks. The different emissions reduction targets of Member States in the effort-sharing sector complicate the pricing of the EU's common emissions trading scheme for road transport. It is unclear how the split between buildings and road transport would be implemented in emissions trading, as there is considerable variation between countries, for example in energy solutions for buildings.

It is still too early to say how the Commission's proposal will progress. The European Parliament's ambition for climate action may contribute to tightening emissions trading

targets. A comprehensive impact assessment of the direct and indirect effects of the Commission's proposal on industry is needed before a decision is taken. At a time of high fuel prices, Finland's logistical competitiveness needs clear solutions to mitigate the competitiveness disadvantages.

FOR FURTHER INFORMATION, please contact: Alina Koskela

Finland to bear a lion's share of the burden (ESR)

The so-called effort-sharing sector, which includes emissions from transport, housing and waste management, has so far played a key role in the EU's climate policy. The Commission is proposing a separate emissions trading scheme for the two key sectors of the effort-sharing sector, road transport and heating of buildings. The new system would be separate from the current emissions trading scheme (large energy producers and energy-intensive industry). Despite the new emissions trading scheme, transport and separate heating will remain part of the effort-sharing sector until at least 2030.

At EU level, the emissions reduction target for the effort-sharing sector would be 40% by 2030 compared to 2005 levels. The emissions reduction targets per Member State are set in the range of 10–50%. In other words, the uneven sharing of the burden will continue. Russia's war in Ukraine will increase the pressure to reduce the use of fossil fuels in many European countries, for example for home heating, which could increase the effort-sharing sector's emissions reductions in these countries.

Finland's emissions reduction target will be increased from 39% to 50%, which is an ambitious target shared with Germany, Sweden and Denmark, among others. 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 to emissions trading) and a link to forests (sink reservoir) is created. It is important that Finland's sinks will not compensate for the lack of sinks in other countries, or fossil emissions from the effort-sharing sector.

FOR FURTHER INFORMATION, please contact: Ahti Fagerblom

Meeting the EU's carbon sink target requires measures to support good forest growth and health

The proposed LULUCF Regulation, part of the Fit for 55 package, defines how emissions and sinks from land use, land use change and forests will be integrated into the EU's climate objectives. 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 guide EU countries to strengthen their carbon sinks and reduce emissions from the land-use sector. The new collective sink target of -310 Mt of

CO₂ by 2030, proposed by the Commission for the EU, is very ambitious. For the Finnish land use sector, the Commission proposes a sink target of -17.8 Mt of CO₂.

The content of the regulation is three-tiered. For the first period 2021–2025, the calculation rules of the current LULUCF regulation will be maintained. In 2025, separate targets for 2026–2029 will be set for Member States, with the aim of reaching the 2030 target. After 2030, agricultural methane and nitrous oxide emissions from the former effort-sharing sector will be combined in the LULUCF calculation to form the new land use sector 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 HII SI project, commissioned by the Finnish Government. Active 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. Carbon sequestration in Europe's forests is already widely threatened by various types of damage. Planned carbon offsetting schemes must also be treated with particular caution.

The forest industry considers it important that the Commission emphasises the ability of wood-based products to store 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.

FOR FURTHER INFORMATION, please contact: Maija Rantamäki

Acceptability of wood use under scrutiny

The Renewable Energy Directive (REDII) s for establishes the rules for aspects including renewable electricity support schemes, targets for increased use of renewable energy sources in heating and cooling, guarantees of origin, renewable energy in transport and the sustainability of biomass. The forest industry believes that the directive should not be amended, especially with regard to the sustainability criteria for biomass and in a situation where alternatives to fossil raw materials and energy sources are needed to improve self-sufficiency.

The Renewable Energy Directive is updated to bring it in line with the EU's new 55% emissions reduction target. In addition to raising the renewable energy target, the main proposals concern 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 target of 51% is expected to rise to 57%. The obligation based on the energy content of transport would be replaced by an obligation to reduce the greenhouse gas intensity of transport fuels. The greenhouse gas intensity of transport fuels and electricity should be reduced by at least 13% by 2030.

A separate indicative renewable energy increase target for industry (1.1% per year) is proposed. 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.

Measures would be required from Member States to ensure that bioenergy is produced in a way to minimise unnecessary market distortions in the raw materials market, and harmful impacts on biodiversity. For this purpose, Member States should take into account the waste hierarchy and the cascade principle, which refers to the resource-efficient use of materials, with forest biomass being used primarily for products and materials rather than for energy use. In this context, the term "high-quality wood" refers to wood whose characteristics, such as species, dimensions, straightness and knottiness, make it suitable for industrial use. It does not apply to trees harvested in pre-commercial thinnings or as a result of forest damages.

With regard to the application threshold for the biomass sustainability criteria, the Commission proposes to lower the overall thermal threshold for installations using solid biomass fuels from 20 MW to 5 MW, which would also bring smaller non-ETS operators, such as sawmills, within the scope of the criteria. Member States should establish a simplified sustainability certification scheme for installations with a capacity of 5–10 MW of electricity, heat and cooling. Emissions savings from renewable energy produced are to be brought forward to at least 70% for all existing installations by the end of 2025 and 80% thereafter.

Significant additions to the so-called risk-based forest biomass sustainability criteria are proposed with regard to safeguarding soil quality and biodiversity. Harvesting of stumps and roots, should be avoided, as should biomass harvesting on vulnerable soils. In addition, large clear-cutting should be minimised, soil compaction during harvesting should be avoided, and appropriate national thresholds for dead wood should be introduced. At the same time, the Commission is proposing new no-go areas where the sourcing of forest biomass would be completely banned.

The forest industry believes that the recently implemented Renewable Energy Directive should be amended as little as possible to bring much-needed predictability to the operating environment.

Efficient bioenergy production should not be hampered

in a situation where the importance of energy self-sufficiency is emphasised. In the event of extending the sustainability criteria to installations below 20 MW, administrative burdens on operators should be avoided. The existing emissions saving requirements concerning energy plants should not be altered retrospectively. Industries that already have a high share of renewable energy should not be obliged to increase their share every year.

The forest industry is critical of changing, once again, the sustainability criteria for forest biomass. The implementation of the current sustainability criteria is still in its early stages. No information is yet available on how well the criteria are working. Instead, there is a recognised need to improve energy security. The Commission's proposal for new criteria is not in line with the risk-based approach that was widely accepted as part of the preparation of REDII under the previous Commission. Some of the new criteria are also very detailed, which undermines national application.

It is a good principle that wood suitable for processing is utilised for products and not, for example, directly to burning as a result of the subsidy policy. The forest industry acknowledges the cascade principle but the Commission should not legislate on it.

The forest industry also points out that the sustainability criteria for biomass apply to the entire wood supply chain of the wood processing industry, as wood biomass is not grown for energy production in Finland. It is increasingly important to compare the climate and self-sufficiency benefits of wood use with imported fossil raw materials.

FOR FURTHER INFORMATION, please contact: Maija Rantamäki (forest affairs) and Ahti Fagerblom (industrial affairs)

Energy efficiency (EED) overridden by excessive regulation

The Commission proposal sets out rules to implement the “energy efficiency first” principle and ensure that energy efficiency targets are met in the European Union. In practice, the proposal lists a framework and measures to reduce energy use. This is to ensure that the EU reaches its 55% emissions reduction target for 2030. The forest industry believes that the principle should be “fossil dependency down first”.

The proposal would significantly tighten the overall EU-level energy consumption targets for 2030 and make them binding at 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 obligate Member States to improve their energy efficiency and bridge the gap.

According to a preliminary calculation by the Ministry of Economic Affairs and Employment, Finland's final energy consumption in 2030 would be limited to around 255 terawatt hours. In 2019, final energy consumption was 301 terawatt hours.

According to the Directive's energy savings target, Finland should achieve 4.5 terawatt hours of new annual energy savings. The current annual savings target is 2.4 terawatt hours, which means that the new target is dramatically stricter.

Member States are faced with a heavy administrative burden, as they have to provide detailed information on energy efficiency programmes, plans, implementation and results. Extensive reporting and information requirements apply to industry, as well.

The requirements and scope for energy management

systems and energy audits will be changed so that the obligation is not linked to the size of the company (“large company”), but to the overall energy use of the company.

The forest industry believes that the key to combating climate change is to aim for significant reductions in fossil emissions, and not to restrict energy use with detailed regulation as in the proposed energy directive. 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 and effective energy efficiency commitment scheme to implement the energy savings target of the Directive.

Parliament’s chief rapporteur proposes further tweaks to the Commission’s already difficult and controversial proposal. It is important that the Commission’s proposed limitation of energy use be removed from the proposal and the focus shifted to tackling the root causes of climate change, which means reducing the use of fossil fuels. Criticism has arisen in the Council against radically tightening energy saving targets, but Russia’s invasion of Ukraine may trigger the need for consumption flexibility and more general regulation of energy use.

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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. In the past, tax rulings have required unanimity among EU Member States, but now the possibility of qualified majority voting is proposed, subject to certain environmental criteria. The forest industry believes that the power to decide on energy taxes should remain in national hands and not be shifted to qualified majority voting by Member States. Maintaining competi-

tive tax levels for industry is of paramount importance.

Industrial emissions are already controlled through emissions trading, so there is no need for a double steering effect through energy taxation. To combat climate change, it is essential to maintain the current moderate tax treatment of industrial electricity use. In the process of phasing out the fossil fuel economy, it is crucial to maintain the current tax-free treatment of bioenergy and also to take into account efficient combined heat and power (CHP) plants.

The forest industry believes that the update of the Energy Taxation Directive should take into account the international competitiveness of the industry and the risk of carbon leakage. 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 is more dependent on maritime transport than other EU countries.

Parliament’s chief rapporteur does not challenge the decision-making power of Member States on energy tax issues, so Parliament’s role is limited. In the Council, the tax treatment of bioenergy has so far not attracted much attention.

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Forests

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EU FOREST STRATEGY

National competence over forests must be maintained

The new EU Forest Strategy sets out the Commission's objectives for forests and the way forward to achieve the goals of the Green Deal. The strategy focuses on strengthening biodiversity and forest carbon sinks and unfortunately does not sufficiently recognise the social and economic importance of the forest sector. The forest industry stresses the holistic approach to forest use and the importance of national forest policies in implementing the strategy.

The new EU Forest Strategy aims to extend the EU's decision-making power over forest use to a more detailed level, for example by making recommendations on the content of forestry plans and providing more precise guidance on 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.

The forest sector is of great social importance in some Member States, and forest products create wealth for the whole of Europe. Finland is the most forested country in the EU, and the forest sector has a significant impact on our national economy.

National competence on forestry issues will continue to be important. Forests are different and play different roles in different countries. It is important that the Commission's powers are not indirectly increased under environmental, energy, climate or financial policies (e.g. biodiversity strategy, LULUCF, REDII, deforestation regulation, taxonomy).

It is good that the Forest Strategy recognises the potential of the bioeconomy and wood-based products as carbon

storages and as substitutes for products made partly from non-renewable raw materials. Unfortunately, the non-climate benefits of wood-based products are neglected in the strategy. The cascading principle of wood use is important, but the forest industry believes that there should be no legislation in this area.

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 way to prevent forest damage and promote forest vitality, growth and adaptation to changing conditions. Commercial forests provide wood raw material as well as numerous other ecosystem services spanning generations of trees and humans.

The Strategy's legislative initiative on forest information and reporting is significant. The initiative is expected to be published in 2023. Through the National Forest Inventory, Finland has access to comprehensive and long-term information on the country's forest resources, forest health and forest management. Comparable EU-level forest information facilitates balanced and equal monitoring of forests and helps, for example, the prevention of forest damages. The collection of forest information must continue at the national level as part of the National Forest Inventory.

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” In addition to wood raw material, commercial forests provide a wide range of ecosystem services across generations of trees and people.

DEFORESTATION AND FOREST DEGRADATION

The Finnish forest industry's wood procurement does not cause deforestation

Deforestation is causing global biodiversity loss. The Commission's aim is to ensure that the production of products sold in the EU does not cause deforestation or forest degradation. The EU Timber Regulation on the legality of timber will be merged into the legislation on deforestation. The Finnish forest industry's wood procurement does not cause deforestation, and the forest industry ensures the origin and legality of timber. The forest industry stresses the importance of sustainable forestry in the fight against deforestation and forest degradation.

Almost 80% of global deforestation is due to increased production of commodities such as soy, beef, palm oil, coffee and cocoa. At the end of 2021, the Commission published a proposal for a regulation to restrict the placing on the EU market and export of products that cause deforestation and forest degradation. In addition to palm oil, soya, cocoa, coffee and beef and derived products, the proposal covers timber and derived products.

Although the aim of the regulation to halt deforestation is commendable, its means of collecting data on wood procurement are excessive. The proposal would require operators to be able to demonstrate, in addition to the legality required by the EU Timber Regulation, that a product placed on the EU market or exported to third countries is deforestation-free and does not cause forest degradation. From the forest industry's point of view, the origin requirement at product level is unreasonable, as raw materials are mixed several times in the industrial process, and it is impossible to declare the origin of raw materials at the level of the finished product. The origin requirement also raises competition law challenges.

When the legislation on deforestation enters into force, all countries will initially be classified as standard risk. The Commission will classify low- and high-risk countries according to the information received from the countries concerned by means of implementing acts. The forest industry points out that risk classification must not lead to discrimination between WTO members or other trade partner countries.

Operators are required to carry out due diligence, the extent of which depends on the country's level of risk. Even in low-risk countries, companies have to determine the origin of the timber with the precision of the forest holding or logging site. In high-risk countries, in addition to information gathering, risk assessment and risk minimisation are required. Companies must publish a due diligence report every year.

The Commission proposes a new term for forest degradation, "sustainable harvesting operation," with the same criteria as the sustainability criteria for forest biomass in the Renewable Energy Directive (REDIII), which is currently being updated. Through the deforestation regulation, the biomass sustainability criteria for biodiversity and soil conservation would be extended to all wood procurement.

From the point of view of the forest industry, the regulation should only apply to deforestation caused by agricultural use and not to forest degradation. While forest degradation is a serious issue, it is also very specific to land and forest ecosystems and therefore complex to define and measure. Moreover, defining criteria for sustainable logging at EU level overrides national sovereignty over forests. Therefore, this legislation should focus only on combating deforestation without causing significant harm to sectors and operators acting responsibly.

The forest industry welcomes efforts to combat deforestation, but the associated verification methods must be affordable for companies. In addition, the key role of voluntary forest certification schemes in demonstrating sustainability must not be overlooked. Market-based certification schemes are global tools that have long been developed in extensive cooperation with various stakeholders.

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EU BIODIVERSITY STRATEGY

The Biodiversity Strategy does not recognise the significance of sustainable forest management

The EU's updated Biodiversity Strategy aims to ensure biodiversity recovery by 2050. Measures identified in the strategy include a significant increase in protected area and the restoration of degraded ecosystems. The Biodiversity Strategy aims to mainstream biodiversity across different policy sectors. The forest industry stresses the importance of sustainable forest management and best practice in Member States in promoting biodiversity.

The forest industry considers safeguarding biodiversity to be important. The biodiversity protection and restoration targets of the new EU Biodiversity Strategy are very ambitious. Unfortunately, the strategy was developed without a comprehensive assessment of its economic and social impacts and fails to recognise the importance of sustainable forest management. Securing biodiversity should take into account all three pillars of sustainability.

A legislative proposal on nature restoration is expected from the Commission in 2022. The forest industry believes that decisions on conservation and restoration targets must be taken at national level. They must be pursued by means chosen by the Member States, taking into account the circumstances of each Member State. Instead of directly increasing the area under protection and restoration, measures already used in sustainable forest management to promote biodiversity should be taken into account. For example, targeting restoration measures at habitats in the Natura 2000 network would bring efficiency to site selection. Protection

should 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. Restricting the use of wood would jeopardise both current production and future investments in the circular bioeconomy.

The forest industry stresses that forest policy is a national responsibility of the Member States and that this should be reflected in the forest issues and definitions contained in the strategy. Important definitions include primary forest, old-growth forest and closer-to-nature forestry.

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

COMMON AGRICULTURAL POLICY (CAP)

Agricultural policy must facilitate a wide range of forestry measures

In June 2021, agriculture ministers adopted the reform of the Common Agricultural Policy for the period 2023–2027. The agricultural policy also includes measures concerning forests. The forest industry considers it important that the CAP continues to allow for a wide range of forestry measures.

The new CAP programming period will start at the beginning of 2023, after the Commission has approved the new strategic plans drawn up 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. Forest-related measures have been part of the common rural development policy (Pillar II). In the future, Pillar I and Pillar II support will be implemented under a single national strategic plan. At national level, the aim has been for the rules to be equivalent, whether the measure is taken as part of the CAP or as a national state aid measure.

The guidelines on state aid for agriculture, forestry and rural areas are guided by the Common Agricultural Policy. 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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” Although the EU does not have a common forest policy, the use of forests is governed by a number of different EU policies.



Logistics and transport

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SUSTAINABLE AND SMART MOBILITY STRATEGY

Legislative changes must take into account industrial competitiveness

The European Commission's strategy for green, sustainable and smart mobility aims to give a new impetus to digitalisation and improve the crisis resilience of the entire transport system. The strategy, adopted in December 2020, seeks change through an ambitious 82-point action plan. The Fit for 55 package has given a taste of the scale of change, and more legislation is on the way in the coming years. The next step for the Commission is to review, among other things, the Weights&Dimensions Directive, which should continue to enable the development of transport in Finnish conditions.

For logistics, one of the most significant reforms in the strategy is the move to polluter-pays carbon pricing for all modes of transport. This is against the background of the EU's agreed target to reduce transport emissions by 90% by 2050. The Fit for 55 package proposes the inclusion of maritime transport in emissions trading, the extension of emissions trading for aviation and the creation of a new emissions trading scheme for road transport. It also proposes that the energy taxation at EU level will be revised by removing incentives for fossil fuel use in favour of low-carbon and renewable fuels.

At a time when the Commission and Member States want to discourage the use of fossil fuels through new charges and taxes, they face a real challenge to replace them with low-carbon alternatives in the short term. To reduce the carbon footprint of freight transport, the Commission is aiming for a major modal shift, with 75% of the EU's freight transport going by rail and inland waterway in the future. Finland's

geographical location alone will continue to make it dependent on maritime transport, but it must also be able to take full advantage of the opportunities offered by other modes of transport. The EU is investing particularly in the development of rail transport, and Finland also needs to develop its railways to better meet the needs of freight transport and the forest industry.

The Commission also has a strong will to reduce emissions from road freight transport and to develop the internal market. The Weights&Dimensions Directive, which is important for Finland, is coming up for review, setting common rules on size limits for combination vehicles and exemptions from them. The performance and energy efficiency of road transport in Finland has been successfully promoted by developing masses and dimensions nationally for almost 30 years. It is important that the benefits of this development continue to be realised and that the review of the Directive does not undermine the status quo.

Emission limit values for heavy duty vehicles will also be reviewed. The Fit for 55 package could end the production of internal combustion engines for cars and vans in the EU by 2035. Heavy transport needs a wider range of tools, taking into account the variety of uses. The regulation should enable the development of power source systems in technology-neutral way, taking account energy efficiency benefits. The speed of deployment of distribution infrastructure plays a key role in the uptake of low-emission heavy-duty transport solutions, especially in Finland, where the transport distances are long.

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Responsibility, the environment and the circular economy

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SUSTAINABLE DEVELOPMENT

The forest industry's sustainability commitments support sustainable development

The European Green Deal is an integral part of the EU's efforts to achieve the UN's Sustainable Development Goals. The forest industry has a lot to contribute to these efforts.

The Commission aims to put sustainability and citizens' well-being at the heart of economic policy and the UN Sustainable Development Goals (SDGs) at the heart of EU decision-making and action. As part of the Green Deal, the Commission will adapt the European Semester to include the UN Sustainable Development Goals.

The forest industry is committed to contributing to the achievement of the UN's Sustainable Development Goals. The forest industry's sustainability commitments and actions contribute to several SDG targets. The forest industry plays a crucial role in promoting sustainable economic growth, sustainable industry and innovation, increasing renewable energy, combating climate change, implementing the circular economy, and the sustainable use of forests.

Cooperation between various parties and partnerships is crucial in achieving the SDGs. Businesses play a key role in the implementation of the goals. We must also remember to take all aspects of sustainability into consideration.

A second interim report on the progress of sustainability commitments in the forest industry is currently being prepared and will be published during 2022.

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EU CORPORATE SUSTAINABILITY REPORTING REGULATION

The CSR Directive is moving forward - the toolbox needs to be improved

In February 2022, the European Commission issued a proposal for an EU-level corporate sustainability reporting regulation that would apply to many of the member companies of Finnish Forest Industries. The regulation aims to promote responsible business practices and minimise social and environmental harm. Due diligence obligations are at the heart of the proposed regulation. National initiatives on CSR legislation must continue to be avoided.

The due diligence obligation would mean that a company must assess and prevent negative human rights and environmental impacts of its activities and remedy existing harms or deficiencies. Several national due diligence initiatives in Europe have led to an unpredictable business environment. They also lead to a competitive disadvantage and increase the administrative burden on businesses. This is why EU-level regulation is preferable to a number of national initiatives. However, the best way forward would be a global solution to a global challenge. Guidelines already exist to set binding global rules, such as the UN Guiding Principles on Business and Human Rights.

Regulation such as the draft CSRD is unacceptable for companies. The proposed directive is very broad and difficult to interpret. It extends to corporate governance and overrides general principles of tort law. Legal certainty for businesses must be guaranteed, and the administrative burden on businesses must be kept at a justified and reasonable level. The requirements must be clearly defined and manageable. Due diligence should be risk-based and proportionate.

” National CSR initiatives must be avoided; we need a global solution to a global challenge.

The draft directive mixes corporate and state responsibility for human rights and environmental issues. Human rights and environmental issues are regulated by international treaties, which countries decide to ratify independently. 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.

The competitiveness of European businesses must be ensured. The forest industry is concerned that the criticisms made by the body responsible for monitoring the quality of the legislative drafting of the directive are being ignored, particularly with regard to the scope of the directive. The impact of the legal framework, for example on business competitiveness, must be thoroughly assessed before new legislation is proposed, and the impact assessment must be taken seriously by the legislator.

The forest industry considers it important that companies examine the human rights and environmental impacts of their operations and minimise 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 world leaders in sustainability. More than 150 Finnish companies are participating in the UN Global Compact initiative, in which companies commit to ten principles relating to human rights, labour standards, the environment and the fight against corruption.

Through the forest industry sustainability commitments, forest industry companies are committed to acting responsibly both nationally and internationally, and to ensuring responsible supply chains. Respect for human rights and care for the environment are strongly embedded in companies' own policies. The forest industry, together with the rest of the business community, supports the objectives of the CSR Directive, but would like to see more proportionality and clarity in the range of instruments in the Directive.

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ZERO POLLUTION ACTION PLAN

A healthy planet for healthy people

The European Commission’s Action Plan “Towards Zero Pollution in Air, Water and Soil” sets out a vision for 2050: a world where pollution is reduced to levels that are no longer harmful to human health and natural ecosystems. The Action Plan also sets out the steps to achieve this goal. The forest industry supports the objectives of the Action Plan, but emphasises the cost-effectiveness of the reduction measures.

The Action Plan combines all relevant EU policy areas to prevent pollution, with a special emphasis on how tackling pollution with digital solutions. The focus is on tackling pollution through digital solutions. The relevant EU legislation will be reviewed to identify regulatory gaps and areas where implementation needs to be improved to meet legal obligations.

The Action Plan will steer the EU towards the 2050 goal of a healthy planet for healthy people. To achieve this, the Action Plan defines key targets 2030 for reducing pollution at source. To achieve this, the Action Plan defines key 2030 targets

- 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 pesticides’ 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 50%.

The forest industry supports the systematic review of emissions as a whole and the more systematic regulation of emissions. 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 the emission sources with the most significant environmental impacts. Considerable efforts have been made to reduce industrial emissions in recent years. It is positive that other sources of emissions are also considered.

The EU Chemicals Strategy for Sustainability, adopted by the Commission, includes more than 50 actions, a significant number of which have started to be implemented at a very rapid pace. The forest industry supports the simplification of the legal framework for chemicals, higher transparency in measures concerning chemicals, and safer and more sustainable use of chemicals. It is important that decisions on chemicals are based on risk assessments and other comprehensive and careful prior assessment. The quality of legislation must not be undermined by rushing its preparation and implementation.

Regarding microplastic emissions, the Commission is currently working on initiatives related to both intentionally and unintentionally released microplastics. For intentionally released microplastics, the Commission’s proposal has been delayed, but is expected at any moment on the basis of a proposal from the European Chemicals Agency (ECHA). The proposal is expected to impose different reporting obligations on the forest industry. For unintentionally released microplastics, work has only just begun, with the focus being in particular on microplastic emissions from car tyres, pellets and textiles.

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INDUSTRIAL EMISSIONS DIRECTIVE

Overlapping legislation to be avoided in the revision

Harmonising legislation and streamlining the interfaces between different regulations regimes is important, but the forest industry wants to avoid duplication of legislation.

Emissions to air and water from industry are regulated under the Industrial Emissions Directive and sector-specific Best Available Technology (BAT) conclusions. The assessment of the Industrial Emissions Directive indicated that it has played a key role in reducing emissions. The governance model of the Industrial Emissions Directive, including the process of preparing BAT documents, has been a success story and is considered a key EU legislative instrument.

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

A Commission proposal to revise the Industrial Emissions Directive will be adopted in April 2022 as part of the Emissions and Pollutants package. The reform addresses issues such as the sectoral scope of the legislation and how to bring emissions legislation into line with climate, energy and circular economy policies. The impact assessment includes proposals that, if implemented, would overlap with other legislation and complicate the environmental permit process. An example of this would be the inclusion of greenhouse gas emissions in the Industrial Emissions Directive for installations covered by the emissions trading scheme.

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. Changing this principle would complicate the BAT preparation and environmental permitting processes. 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 be maintained. In other words, the flexibility of 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. To avoid legal uncertainty, new review cycle of the BAT documents should not launch before the Industrial Emissions Directive 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

The Commission needs to emphasise the diverse potential of wood raw material

The Commission published the Circular Economy Action Plan in March 2020. The forest industry believes that the different elements of the plan should emphasise the potential of wood raw material for a wide range of industrial uses and products.

In promoting the circular economy, the Commission has so far focused on the collection, sorting and recycling of waste. Material substitution, which means replacing products made from non-renewable raw materials with those made from renewable ones, has not been seen as part of the solution. In particular, bio-based fibres, textiles, composites, plastics, energy and construction should be seen as part of a circular economy solution. In addition to high recycling rates, EU regulation should promote the use of the above.

The Commission has also considered, on various occasions, 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, particularly with regard to fibre, by making them more inefficient than at present.

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 impact 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 and actions, not by preventing economic activity. Compulsory regulation often leads to a worse result.

The circular economy also involves product information and possible regulation. As part of the Circular Economy Action Plan, the Commission published a Communication on the Sustainable Product Initiative (SPI) on 30 March 2022, aiming to make the sustainable products the new norm in Europe. The Initiative includes widening the scope of the Ecodesign Directive to Ecodesign for Sustainable Products Regulation, that will, among other actions, set ambitious ecodesign requirements for all products and improve products environmental sustainability information by introducing digital product passports. More product specific regulation is expected later this year with the publishing of Green Claims initiative, together with an update of the Packaging and Packaging Waste Directive in July 2022. The growing information regulation involves the risk of complexity of the systems used. To achieve genuine impacts and change, the systems should be sufficiently simple and unambiguous from the viewpoint of businesses as well as consumers.

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” Material substitution should be seen as part of the solution.

SINGLE-USE PLASTICS (SUP) DIRECTIVE

Materials and products from the forest industry should be recognised as environmentally sustainable substitutes for plastics

The Single-Use Plastics (SUP) Directive, which aims to reduce the use of single-use plastic products, entered into force in July 2021 with regard to marketing bans and labelling requirements. The Directive also places varying degrees of restrictions and requirements on products made from wood-based materials.

According to the Directive's implementation guide, published in June 2021, paperboard cups and takeaway food packaging containing only small amounts of plastic are fully comparable with all-plastic products and are therefore covered by the Directive. Although it is these very products that can replace products made entirely of plastic, their use must also be reduced. This is illogical. 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 very strict interpretations and definitions that extend the scope of the Directive far beyond its original intention.

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. Unfortunately for the forest industry, the guidelines also include

both bio-based plastics and products made from modified natural polymers, which the guidelines equate with conventional plastics. The only exceptions are so-called traditional pulp-based paper and paperboard products, made from natural polymers that have not been chemically modified, which do not contain plastic. They are seen as alternatives to plastic in the Directive.

In practice, the definitions in the Directive mean that single-use paper or paperboard-based products with a plastic coating or lining to improve liquid or grease repellent properties (barrier coating) are 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 definition of plastic in the Directive.

The forest industry has been active in efforts to influence the content of the Directive's implementation guidelines to exclude recyclable, renewable and environmentally friendly paperboard-based products from the scope of the Directive. Numerous EU initiatives, including the new Circular Economy Action Plan and the SUP Directive, encourage the substitution of materials and products made from fossil and non-renewable raw materials, increased recycling and the move towards a circular economy. In the forest industry's opinion, it is a paradox that already existing, sustainable solutions do not receive favourable treatment.

There is also a risk that the investments made by the forest industry and its partners in product development and innovation to replace plastics and reduce its use will be wasted. One major problem with the Directive is that, despite its intentions, the use of plastic in products will continue to increase as the requirements of the Directive are met or circumvented, for example by increasing the portion sizes of packaging. The forest industry sees that the good objectives of the Directive could have been most easily achieved by allowing a low limit value for the amount of plastic in the product. This would also have ensured a significant absolute reduction in the amount of plastic without compromising

food safety and hygiene, and continuity in the development of new innovations and products in the forest industry.

Recently, the forest industry has been lobbying for national reporting of the reduction in the consumption of plastic products under Article 4 of the Directive as a reduction in tonnes of plastic instead of a reduction in units of products. According to the implementing act published in the Official Journal of the European Union on 7 February 2022, a Member State can choose whether to report the reduction in consumption per unit or plastic used in products. The forest industry considers the Commission's compromise solution to be feasible, especially since Finland has decided to implement a voluntary scheme to reduce the consumption of single-use plastic packaging. The effectiveness of this initiative will be monitored in terms of a reduction in the amount (in tonnes) of plastic contained in the products.

The forest industry sees this as the only realistic option, and the data needed to report it is already collected through other legislation. This will also help to achieve the original objectives of the Directive to reduce the use of plastics.

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

REVISION OF THE PACKAGING AND PACKAGING WASTE DIRECTIVE

The revision should not set unrealistic targets for the use of recycled material or reusable packaging

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

The Commission is currently finalising the impact assessment for the updated Directive, and a proposal for a Directive is expected in July 2022. The impact assessment and proposed measures are divided into different areas. Of these areas, at least the recyclability of packaging and recycled content, compostable packaging and targets for reusable packaging are relevant to the forest industry.

Many of the preliminary proposals in different areas that were put forward by the Commission's consultant in the summer 2021 workshops were challenging or unrealistic. The forest industry has also reacted to these. However, as the Directive already imposes certain limits on its scope, the Commission is also considering legislation through implementing and delegated acts.

To achieve the main target by 2030, the Commission wants to reduce over-packaging and packaging waste, design packaging to be reusable and recyclable, reduce the complexity of packaging materials and establish EU-wide labelling.

Preliminary proposals for action range from information and labelling to definitions and binding targets. In principle,

the situation is slightly better for fibre-based packaging than, for example, plastic packaging, with many of the initial proposals for action mainly targeting the latter. However, the targets for reusable packaging for the various sectors that have been presented have been completely unrealistic. In the forest industry's view, reusable packaging must also meet the requirements of 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 in practice is very rarely reused.

The forest industry is particularly keen not to impose a mandatory recycled content requirement for paper and paperboard products, as the market for recycled paper in Europe is functioning well and the amount of recycled content in the packaging of these materials is already relatively high. Using recycled content would not lead to the best environmental or economic outcome, but would at worst disrupt the recycling market. For plastic packaging, the Commission is assessing the possibility of counting bio-based plastics as recycled content and developing a certification scheme for this purpose.

Packaging value chain advocacy is driven by the need to prevent over-packaging by striving for "fit for purpose" packaging and targeting the whole supply chain.

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