

European paper industry's position on the draft delegated regulation on a climate change mitigation and adaptation taxonomy

The European paper industry has already delivered a successful decoupling of carbon emissions from economic growth while reducing carbon emissions by 29% from 2005 to date, having product volumes increased and proved the climate friendliness of its products thanks to certified raw materials and a world class performance in recycling.

The objective is to be the most competitive, innovative and sustainable provider of net-zero carbon solutions in 2050, namely by strengthening the role of wood and wood-based products in our daily lives, substituting critical or CO₂-intensive raw materials and fossil energy and closing material loops by boosting collection and recycling. The European paper industry wish to play a central role in satisfying the daily needs of Europeans and offering solutions that contribute to a sustainable lifestyle.

Following changes are needed in the forestry parts of the delegated act

The European forest and forest-based sector has a long history in developing sustainable forest management as part of the sustainable welfare to societies. The core of the sector is to ensure health and vitality of forest resources in the long-term. At the same time it develops new innovative materials and products to replace fossil-based alternatives. Forests provide various ecosystem services from e.g. soil quality, water filtration and air purification to recreation and raw materials. Forest management is a long-term commitment over several generations. Return of the investments made by the forest owners occur often after decades.

The Confederation of European Paper Industries (Cepi) agrees that afforestation and reforestation can make a substantial long-term contribution to the climate change mitigation and adaptation provided that forests are also in future sustainably managed in a timely and active manner. Cepi also sees that the European Commission's target to plant 3 billion trees is important. However, with the criteria proposed in the draft delegated act by the Commission, the afforestation/reforestation project will be almost impossible to implement.

The draft delegated act also suggests two other forestry categories, named as "improved forest management" and "conservation forestry" to be included in the taxonomy. According to the Commission these "economic" activities can make a substantial contribution to the climate change mitigation and adaptation. The initial purpose of the taxonomy regulation was to address sectors with the biggest potential to contribute to the environmental objectives of the law. **Cepi strongly questions a substantial contribution of these two forestry activities in a fair and sustainable manner.**

Conservation forestry is a marginal economic activity and suggested criteria for conservation forestry and improved forest management, with verification systems via compulsory forest management plans or equivalent with required climate benefit analysis, would heavily increase administrative burden in particular for private forest owners. In practice, this would mean increased red tape for 60 % of the EU's

forest area. At the same time additionality and “do no significant harm” criteria would exclude existing sustainable and environment-friendly forest management out of sustainable financing.

Since the Helsinki resolution¹ there is a common understanding between the Member States of the European Union and beyond in Europe about the principles and criteria of sustainable forest management. These principles are embedded in Member States national forest legislations and voluntary marked-based certification systems which the sector is widely using. As of 2021, various forest-related EU policies set requirements for the use of forest. In particular the recast of the Renewable Energy Directive (REDII) sets sustainability criteria for forest biomass used in large-scale CHP installations. Set against a no-management baseline, it is scientifically proved that any forest sustainably managed under EU member states’ legislations increases its carbon storage capacity in the long-term and therefore fulfils the main aim of this taxonomy legislation. The adjunction of an “improved forest management” category is therefore inexplicable.

Sustainability requirements must respect local specificities and the sustainability system in taxonomy must be the same regardless of the end use. Wood from the same forest holding is used for different purposes. Therefore, forestry activities that are in line with the renewable energy directive REDII should also be taxonomy compliant throughout the criteria. REDII sustainability criteria are based on a two-step risk assessment. The risk assessment starts at the level of a country's legislation. In case national legislation does not meet the requirements of the sustainability criteria, sustainability must be considered in the wood sourcing area. Despite the current natural disturbances (e.g. bark beetles, storms and forest fires) caused by climate change, it is justified to claim that current forestry practices are making a substantial contribution for climate, people and economy.

Moreover, the changes to the forestry elements in the draft first delegated act would be essential in order to reflect the complex competence division between the EU and the Member States and the subsidiarity principle. Member States are competent on forest policy, while the EU has the competence in sectorial policies in the field of e.g. environment and energy. The current draft is not respecting the competence division and can lead to detrimental false misperceptions as it comes to future sustainability provisions in other EU policies. In addition, the overall aim of the EU taxonomy for sustainable finance and the contribution of forests are put at risk if the proposed requirements would be adopted.

Following changes are needed in the energy parts of the delegated act

The European paper industry has already delivered a successful decoupling of carbon emissions from economic growth while reducing carbon emissions by 29% from 2005 to date. Our relatively low CO₂ emissions are, among others, a consequence of the growing use of less carbon-intensive or even carbon-neutral sources of energy, such as bioenergy. The European pulp and paper industry is the largest industrial generator and user of renewable energy in Europe.

¹ https://www.foresteurope.org/docs/MC/MC_helsinki_resolutionH1.pdf

Our sector is investing at a rate of more than €5 billion per year to decarbonise, with a commitment to making our production processes more efficient and decreasing our overall carbon footprint thanks to new technologies and collaboration with our partners.

Therefore, Cepi is strongly concerned about the technical screening criteria for energy in the European Commission's draft Taxonomy Delegated Regulation proposal. As it stands, it will prevent the industry from making fully informed decisions on its investments, undermine access to affordable financing and jeopardise energy supply at an acceptable cost, which are key to maintain jobs in Europe and avoid carbon leakage.

Ahead of its publication, we call on the Commission to better address the following principles in its proposal:

1. The future Taxonomy should help the industry to achieve EU climate and energy goals

A predictable policy framework is key to secure a successful industrial transition and to ensure long-term sustainability. Therefore, the draft delegated act and its Annexes should follow the technology neutrality principles laid out in the Taxonomy Regulation. Regrettably, the Commission proposal sets different targets, standards or thresholds for various energy sources. This will disrupt markets, distort competition and result in burdensome and costly implementation.

The same principles for assessment must apply for all renewable electricity generation technologies and criteria should be in line with existing European legislation. For example, the draft delegated act must change substantially for hydropower to be considered fully sustainable. All carbon-free electricity generation technologies must have a level playing-field in the EU. Bioenergy is by far the largest current source of renewable energy in the EU and should not be classified as a "transitional solution", as proposed now. This may prevent the investments enabling a sustainable transition to climate neutrality.

2. The future Taxonomy's criteria and thresholds must ensure a level playing field

The Commission proposal presents serious inconsistencies as well as technical and methodological flaws that result in a lack of a level playing field. By not assessing all decarbonised energy sources, including nuclear power, at the same time, the current draft undermines investment predictability for businesses, governments and financial market participants.

Given the expected major impact on the European economy, technical screening criteria must be properly developed and impact assessed. Otherwise investments in higher efficiency solutions like cogeneration would be disincentivised. Cogeneration directly enables our industry to improve the environmental footprint. Before applying the criteria, proper stakeholders' scrutiny and involvement in all relevant fora have been necessary, in line with the Better Regulation Agenda.

3. The future Taxonomy should reflect a transitional, evidence-based and pragmatic approach

Member States will have different starting points entailing varying investment capabilities and needs. The EU Taxonomy must leave enough flexibility to consider today's technological development, existing infrastructure and current energy mixes, while offering development pathways for low-carbon and renewable energy sources and technologies.

Europe's transition to climate neutrality will not take one single form nor will it happen all in one day. The draft delegated act should, therefore, ensure that "transitional activities" have their dedicated criteria to reflect their transitional nature. Through adequate screening criteria, economic sectors and Member States can embark on progressive and achievable transition pathways, in line with European climate and energy goals. For example, natural gas should have a dedicated threshold to reflect its role to facilitate an affordable and fair energy transition.