POSITION PAPER SWEDISH FOREST INDUSTRIES (SFIF)

The 2040 Climate Framework

The Swedish Forest Industries Federation supports the EU 2040 climate target.

The climate framework should prioritise the reduction of fossil greenhouse gas emissions as the primary driver of climate policy. To support this objective, the EU LULUCF framework should be aligned to enable a growing forest-based bioeconomy, strengthen competitiveness, and enhance European resilience. Fossil fuels and fossil feedstocks should be systematically replaced with fossil-free energy and renewable raw materials.

Summary and Core Principles

SFIF considers the design of the 2040 climate framework as a decisive step towards climate neutrality. Deep and sustained reductions in fossil emissions remain the only robust and cost-effective approach. Policy approaches that rely on offsetting continued fossil emissions through additional regulation of biogenic emissions and removals risk being both ineffective and costly.

A credible and effective climate framework should be based on the following principles:

- Substitution of fossil-intensive energy and materials should be the primary objective, mainly driven by emission trading, without overlapping national targets under ESR and RED.
- Fossil emissions and the biogenic carbon cycle should be treated separately in targets and policy instruments.
- LULUCF should not compensate for insufficient fossil emission reductions in other sectors.
- Permanent removals should only compensate for truly hard-to-abate fossil emissions and should not delay fossil phase-out.
- Financing of permanent removals should follow the polluter-pays principle.
- Frontrunners (businesses and Member States) should not be penalised, for example, by the ETS 95% threshold for biomass.
- A strong forest-based bioeconomy and active sustainable forestry should be recognised as foundational to the climate transition.
- Regulatory simplification and improved competitiveness for the EU bioeconomy are essential.

Substitution of fossil-intensive energy and materials is the main objective, while uncertainties in the land sector must be reflected in realistic and indicative LULUCF-targets.

Position by SFIF:

1. Policy Design: EU and Member State Targets

EU-level instruments should constitute the main driver of emission reductions and permanent removals. National targets should complement EU policy instruments and have a reduced role after 2030.

EU Level

- Emission trading for fossil emissions should remain the central instrument to achieve EU climate targets.
- Targets, policy instruments and financing for permanent removals may be developed, provided they are voluntary and based on realistic expectations.

Swedish Forest Industries

Member State Level

- LULUCF targets should be defined as indicative ranges, based on realistic Member State assessments.
- LULUCF should NOT be expanded to include fossil emissions or permanent removals.
- ESR targets should apply only to emissions outside ETS and LULUCF.
- Overlapping RED targets for emissions covered by ETS, such as greenhouse gas reduction quotas, should be avoided.
- Climate policy should reflect the benefits of bio-based products.
- Substitution effects should be included in the analytical basis of the 2040 framework and national energy and climate plans, using robust and internationally recognised methodologies (e.g. ISO 13391).

2. LULUCF – National Targets

Land use and forests play an important role in climate mitigation. However, biogenic carbon flows differ fundamentally from fossil emissions and require a distinct policy logic.

The decline in LULUCF carbon sinks across the EU, particularly in forest-rich Member States, is mainly explained by:

- ageing forests and reduced net growth.
- climate impacts (e.g. drought, pests, disturbances).
- methodological revisions and accounting uncertainties.
- natural limitations when carbon stocks are already high.

Achieving climate neutrality by 2050 and net-negative emissions thereafter requires healthy, actively managed forests and continued production of forest-based products over long time horizons.

LULUCF policy should support active sustainable forest management, incentivise forest growth and resilience, and avoid short-term measures that reduce long-term sink capacity.

Unrealistic, binding national targets risk:

- favouring fossil-based materials over bio-based products.
- forcing short-term harvesting constraints that weaken competitiveness, security of supply and the bioeconomy.
- reducing long-term sequestration capacity,
- increasing the risk of carbon leakage.
- creating regulatory uncertainty without delivering effective climate mitigation.

SFIF policy recommendations:

- LULUCF ambition should be expressed as indicative range targets at EU and national level.
- Targets should be based on bottom-up Member State assessments of realistic sink potential, forest dynamics, climate risks, and cost-effective forest management measures that enhance long-term growth.
- The use of KPI:s will not reduce the importance of realistic, indicative targets. Any realistic measures are of minor importance for the actual outcome in any timeframe, and function and content of KPI:s remains unclear.
- The climate framework should more accurately reflect carbon storage in harvested wood products and better account for recycling, multiple use cycles and evolving product categories
- Member States should account for the importance of substitution benefits when assessing future LULUCF sink potential.

3. EU Emissions Trading System (ETS)

The EU ETS has proven effective in reducing emissions in the power sector and parts of industry. The Swedish paper and pulp industry has reduced its fossil emissions by 65 percent since the start of EU ETS in 2005. Emission trading should remain the main policy instrument for achieving climate neutrality.

As the emissions cap is tightened, ensuring efficiency, fairness and competitiveness becomes increasingly important.

Effective carbon leakage protection and a level playing field are essential for the functioning and acceptance of the ETS. Frontrunners should not be disadvantaged.

Ensure that industry will continue to get protection against carbon leakage through free allocation of allowances or an equivalent long-term mechanism. The share of free allocation needs to be recalculated to ensure sufficient free allocation and prevent non-targeted reductions across sectors.

The competitiveness of EU industry must also be considered related to potential regulatory simplification, expectations and burden sharing between ETS1 and ETS2 and how the market functions.

SFIF policy recommendations:

- Remove the 95% threshold in Annex I of the ETS Directive to avoid discrimination against installations using bioenergy and reverse the unjustified loss of carbon leakage protection for installations that have been frontrunners in investing in decarbonisation.

- Provide compensation for indirect costs to electricity-intensive industries in all Member States, financed and administered at EU level.
- Remove conditionalities linked to free allocation in order to ensure effective carbon leakage protection and reduce administrative burden in line with the Omnibus agenda.
- Reduce the intake rate of the Market Stability Reserve to prevent unnecessary tightening of the carbon market and excessive cost increases.
- Ensure a realistic and balanced burden sharing between ETS1 and ETS2. Energy intensive industry that faces global competition should not take a larger burden than sectors without risk of carbon leakage. Electrification of transport and heating will move the burden from ETS2 to ETS1 which must be reflected in the burden sharing.

4. Permanent Carbon Removals

Permanent removals are recognised as a necessary long-term element of the climate framework, particularly for compensating a limited share of truly hard-to-abate fossil emissions.

However, there are various factors that need to be taken into account. Ongoing innovation and increased material efficiency are expected to reduce biogenic emissions over time, thereby limiting the long-term potential for large-scale bio-CCU/S. For example, the development of emission-free pulping technologies aimed at significantly reducing process emissions while also increasing material efficiency and product yield.

If such technologies are successfully scaled, the future biogenic emissions from pulp production could decrease substantially. While this is clearly the desired outcome, it would also reduce the availability of CO2 for capture, and therefore the relevance of large-scale bio-CCU/S in parts of the sector.

At the same time, carbon removals' scalability, cost-effectiveness and technical feasibility and market potential remain highly uncertain.

The potential of permanent removals up to 2040 and 2050 is therefore difficult to assess and is expected to be limited compared to current fossil emissions.

In summary, the forest industry offers a significant theoretical potential for bio-CCS/U. In Sweden alone, the potential is estimated at almost 20 million tonnes annually from existing industrial installations, without increased biomass use. However, there are both significant technical uncertainties and limited long-term potential, which depends on a strong forest-based bioeconomy and access to raw material.

Ultimately, carbon removals cannot solve the climate challenge. The decisive factor remains the phase-out of fossil fuels and materials.

SFIF policy recommendations:

- Policy development should be based on a cautious and realistic assessment of scaling potential and cost-effectiveness.
- Targets and financing frameworks should be established ONLY at EU level, rather than placing obligations on individual Member States or sectors.
- Long-term, stable and predictable financing over many decades should primarily be provided by fossil emitters.
- Financing from ETS should be channeled through separate instruments (e.g. Innovation Fund) to avoid mixing fossil and biogenic carbon.
- Additional financing mechanisms, including EU budget resources, should ensure investment continuity beyond 2040.
- Permanent removals should mainly compensate for residual emissions expected after 2050 and should not weaken incentives to reduce fossil emissions.

5. Renewable Energy Directive (RED)

The RED has been a key component of the EU climate framework. However, increasing renewable targets may limit Member States' flexibility to develop resilient fossil-free energy systems.

Detailed sectoral and technological targets have proven complex to implement. The sustainability criteria introduced in RED III are difficult to interpret and apply, including in the context of imports from third countries.

SFIF policy recommendations:

- Revise renewable energy targets to ensure they do not constrain the development of other cost-effective fossil-free energy sources.
- Reduce detailed targets for sectors and technologies.
- Align transport targets with ETS2, which should act as the primary instrument in this sector.
- Maintain a stable and predictable implementation of the cascading use principle, in line with RED III.
- Avoid introducing additional requirements beyond the current framework.
- Evaluate implementation of sustainability criteria and simplify if needed, including overlaps with other legislation such as the EUDR, while keeping a focus on regulatory stability and enhancing competitiveness.

- Clarify and simplify LULUCF-related criteria in Article 29.7(ii). The use of residuals from forestry should not be hindered, or blamed, for example, if high emissions from agriculture exceeds the removals in forests. Active sustainable forest management is sufficient to support and maintain the carbon sink over time, with or without the use of residuals for energy.
- Recognise that active and sustainable forest management is sufficient to maintain the carbon sink over time.

6. Carbon Removal Certification Framework

The development and deployment of EU-level certification methodologies is at an early stage. The potential uptake of voluntary certification remains uncertain and should not yet be integrated into the core climate framework.

SFIF policy recommendations:

- Carbon farming methodologies should support active forest management, increased forest growth, and expansion of managed forest areas.
- Methodologies should not prescribe detailed management practices or restrict sustainable forestry.
- Delegated acts should be fully developed and assessed before considering integration with other EU legislation.

THE SWEDISH FOREST INDUSTRY is an essential contributor in the green transition to a more circular and biobased economy. The industry refines wood resources to bio-based products, such as pulp, paper, board, packaging material, sawn timber, refined wood products, biobased electricity and heat and advanced biofuels. The core business is industrial activities based on wood sourced from sustainably managed forests, but among the industry are also some of the largest private forest holdings in Europe. Any forest, climate, environmental, energy and product related European Union policy is of high importance.

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