

# Swedish Forest Industries' position on ETS in the "Fit for 55"-proposal

## Summary

The Swedish Forest Industries Federation (SFIF) supports the Green Deal and the important goal of a climate neutral society by 2050. The Swedish forest industry is in the forefront of the transition and has successfully reduced carbon emissions by 60 % since 2005. 96 % of the fuels used by the Swedish forest industry comes from renewable sources. The forest industry and its renewable raw materials can further play a key-role in the transition to a more sustainable and biobased society in line with the Circular Economy strategy.

**SFIF has the following suggestions as regards the proposed revision of the EU ETS:**

1. SFIF supports that **the benchmarks in the proposal become more technology neutral**. This will lead to stronger incentives for installations to lower their emissions by using new technology. This should however apply also to industries using sustainable biomass to decarbonise their processes.
2. **SFIF does not support the proposal in the ETS to treat biomass differently than other decarbonisation measures**. This will penalise frontrunners and lead to continued or even increased use of fossil fuels in the industrial sector.
3. SFIF argues that **installations that have reached 100 % decarbonisation must be able to stay within the EU ETS**. The proposed 95 % rule for biomass will give incentives for installations to continue or even increase the use of fossil fuels.
4. **The revised ETS is proposed to be extended to also include emissions from ships**. If the EU in this way unilaterally introduces carbon costs for maritime transports, industries dependent on such transportation must be protected from carbon leakage.

**Ensure that the revised EU ETS also protects forerunners using sustainable biofuels and avoid carbon leakage through maritime transports.**

## Background

The EU ETS (European Union Emissions Trading System) is a market for carbon and a system to trade emissions. If the EU unilaterally imposes a cost on carbon, there is a risk that production will move to countries with less ambitious climate targets, so-called carbon leakage. To reduce that risk, industries are given free allocation of emission rights, which are based on product benchmarks. The benchmarks indicate how many emission rights one can receive per unit produced. Member countries are allowed to compensate energy-intensive industry for indirect costs from the ETS. Sweden has chosen not to offer compensation, while Norway, Finland and Germany are among the countries who have. The EU ETS is a crucial instrument for the EU to achieve its climate goals. That is why the upcoming revision, announced by the EU Commissions, is so important.

## SFIF position in detail

### More technology neutral benchmarks will increase incentives for decarbonisation

Efficient protection against carbon leakage is essential to ensure that reduced emissions in Europe are not achieved by moving the production of goods to regions with less ambitious climate policies. The main instruments for protection against carbon leakage is allocation of free allowances and compensation for indirect carbon costs.

The Commission proposes that “free allocation for the production of a product should be independent of the nature of the production process.” SFIF supports this proposal as it is important not to take away incentives for decarbonisation by reducing free allocation when an installation decarbonises by switching fuel or technology. Technology neutral benchmarks will create a fair and more level playing field and speed up the green transformation of the industry. By keeping zero-emission technologies within the benchmark, it will contribute to set the benchmark at a lower level, incentivising other installations within the same benchmark to reduce emissions.

### Full decarbonisation must be incentivised

Under the current interpretation of the directive, installations that have fully decarbonised are excluded from ETS and will not receive free allowances even though they produce goods that fall within a benchmark category. This gives incentives for installations not to fully decarbonise and continue to use fossil fuels, which in turn will slow down the green transition. Installations that reach full decarbonisation should continue to be included in ETS, strengthening the incentives for full decarbonisation.

The Swedish forest industry has successfully reduced emissions by switching from fossil fuels to biomass. The exclusion of installations using exclusively biomass has led to a situation where installations that have managed to totally reduce the use of fossil fuels no longer receive free allocations. This incentivises

installations not to fully decarbonise their process and continue to use fossil fuels, hindering the green transition.

We believe that the proposal to introduce a threshold value for zero-rated biomass combustion of 95 %, above which installations are excluded from the EU ETS, must be reconsidered. Plants that exclusively use biomass should continue to be included in EU ETS as long as they produce a product covered by a benchmark. The proposal treats biofuels differently compared to other zero emission technologies such as electrification and hydrogen.

### Increased costs for maritime transports

Within the Single Market, a company’s dependence of maritime transports varies depending on location of production and of end-markets. The Swedish forest industry relies heavily on maritime transports, both for sales within the Single Market and for export outside of the Union. Increased costs for shipping will directly affect the competitiveness in comparison to companies less dependent on maritime transports and compared to competitors in third countries. This could lead to a shift of production within the Union and to carbon leakage. Shipping is international in nature and therefore climate mitigation measures should primarily be handled at international level through the UN body IMO. If costs are to be unilaterally imposed by the EU on shipping by including shipping in ETS, implementation of FuelEU Maritime and proposed changes to the ETD, European industry with a dependency on maritime transports should not carry an unproportional burden and should be protected from the risk of carbon leakage from indirect carbon costs from shipping. Parts of the income from auctioning of the additional emission rights from shipping should be used to secure fair burden sharing and finance protection against carbon leakage and the system should be administrated by the EU.

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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