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## TEG report's draft technical screening criteria for forestry creates legal uncertainty and ignores the long-term characteristics of forests

In the context of the European Commission's ongoing work on developing a classification system for sustainable investments<sup>1</sup>, the undersigned organisations would like to express their views on the inclusion of forestry into climate change mitigation activities drawn up by the Commission's Technical Expert Group (TEG) on Sustainable Finance<sup>2</sup>. Due to competence distribution in the EU and the subsidiarity principle applicable in the complex area of forests and forest management, the undersigned organisations **highly recommend using the forest biomass sustainability approach of the recast of the Renewable Energy Directive (REDII)**<sup>3</sup>, which relies on Member State legislation instead of developing an additional new system of screening criteria for forests and forestry.

Europe's diverse forest resources, including growing stock and area, have been increasing significantly during the last decades mainly due to investments in sustainable forest management. Concurrently, forests have become increasingly influenced by dynamic changes due to large-scale calamities, pests and diseases. The undersigned organisations welcome the fact that the sustainable finance initiative recognizes the significant contributions provided by the forest sector to the overall objective of a carbon neutral Europe. To strengthen these contributions, investments are indeed needed in order to achieve not only the climate change mitigation and adaptation objectives, but also to maintain other forest functions and to respond to other growing expectations from society addressed to European forests.

The undersigned organisations welcome the fact that the proposed sustainable finance regulation builds on the definition of sustainable forest management (SFM), referred to in the 2013 EU Forest Strategy<sup>4</sup>, which European

<sup>1</sup>[https://www.europarl.europa.eu/RegData/docs\\_autres\\_institutions/commission\\_europeenne/com/2018/0353/COM\\_COM\(2018\)0353\\_EN.pdf](https://www.europarl.europa.eu/RegData/docs_autres_institutions/commission_europeenne/com/2018/0353/COM_COM(2018)0353_EN.pdf)

<sup>2</sup>[https://ec.europa.eu/info/sites/info/files/business\\_economy\\_euro/banking\\_and\\_finance/documents/190618-sustainable-finance-teg-report-taxonomy\\_en.pdf](https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/190618-sustainable-finance-teg-report-taxonomy_en.pdf)

<sup>3</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32018L2001&from=EN>

<sup>4</sup> [https://ec.europa.eu/agriculture/forest/strategy\\_en](https://ec.europa.eu/agriculture/forest/strategy_en)

countries and the European Commission endorsed within the framework of the Ministerial Conference on the Protection of Forests in Europe<sup>5</sup>. Given the fact that the proposed taxonomy regulation also aims to define a set of criteria, and that SFM contributes in many ways to several UN Sustainable Development Goals as well as to the Paris Agreement goals, **it is crucial to ensure that a holistic approach to SFM is applied while keeping in mind that forest policy is a competence of Member States.**

Sustainable and active forest management plays an important role in meeting EU climate, environmental and energy policy objectives, e.g. tackling climate change, preserving biodiversity, improving energy security and contributing to the development of the circular bioeconomy in Europe. It provides three main climate benefits: CO<sub>2</sub> sequestration in resilient, growing forests; carbon storage in wood and wood products; and a renewable and climate-friendly raw material that substitutes for fossil-based materials and fuels.

To further ensure these roles and even strengthen them in the future, **it is of utmost importance that the future taxonomy regulation does not undermine the objectives of the 2030 Climate and Energy Framework nor the EU 2050 Climate Strategy<sup>6</sup> through the adoption of an inconsistent system of criteria for forest management.** Even though the proposed initiative aims at steering private funding to more sustainable investments, it is likely that the policy will also have an impact on public investments.

As regards the GHG balance, the forestry sector's positive contribution to the Union's climate and energy goals must be considered in the context of the entire life cycle phases of any given forest and the multifunctionality of forest management. In this context, the recently adopted LULUCF Regulation aims to ensure a balance between emissions and removals from the land use, land use change and forestry (LULUCF) sector by 2030 at country level. Unfortunately, **the set of climate mitigation activities envisaged in the TEG report disregards the holistic concepts of sustainable forestry and multifunctional forests as well as their related carbon cycles by not specifying in the criteria that the requirements should apply at country level and fit with the long-term cycles of forests.**

The undersigned organisations also reiterate that **the best practical way to include forests and forest management into the upcoming sustainable finance framework would be to use the risk-based approach for forest biomass as applied in the Renewable Energy Directive (recast)** which properly covers sustainability concerns in forestry and which was adopted by all respective EU institutions and Member States. This would avoid confusion, legal uncertainty and subsequent restrictions to investments in the forestry sector. Unfortunately, the sustainable forest management requirements proposed by the TEG suggests another sustainability set for forestry.

If, in the longer run, a more comprehensive and robust system is needed, the EU Forest Strategy already provides an appropriate framework to accomplish this. Even though forest policy is a competence of the Member States, other EU policy fields indirectly address forests and their use given the fact that forests have the potential to provide multiple solutions to global challenges. Due to an increasingly scattered and fragmented EU policy framework, the implementation plan<sup>7</sup> of the EU Forest Strategy called for an identification of a comprehensive set of sustainability criteria and indicators regardless of end use. The corresponding SFM criteria and indicators should be applicable for the purpose of different EU policies where relevant and when there is a need to refer to SFM and its means of evidence in a way linkable to subsequent life-cycle phases. **Any specific additional sectorial policy driven criteria to determine sustainability aspects in the forest sector is not desirable.**

Therefore, in the future work on the taxonomy, we strongly recommend that the TEG and the Sustainable Finance Platform rely more on expertise from the forest sector – especially concerning the critical role of forestry in the

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<sup>5</sup> [https://foresteurope.org/wp-content/uploads/2016/11/Commitments\\_all.pdf](https://foresteurope.org/wp-content/uploads/2016/11/Commitments_all.pdf)

<sup>6</sup> [https://www.europarl.europa.eu/RegData/docs\\_autres\\_institutions/commission\\_europeenne/com/2018/0773/COM\\_COM\(2018\)0773\\_EN.pdf](https://www.europarl.europa.eu/RegData/docs_autres_institutions/commission_europeenne/com/2018/0773/COM_COM(2018)0773_EN.pdf)

<sup>7</sup> <https://ec.europa.eu/transparency/regdoc/rep/10102/2015/EN/10102-2015-164-EN-F1-1.PDF>

carbon cycle and climate change mitigation – and on established and commonly agreed instruments. This would minimise the risk of shortcomings and misconceptions in the proposed structure and content of the taxonomy system related to forests and forestry.

SFM requirements should always use provisions of Member State legislation based on the Forest Europe process as a baseline. Market-based solutions, such as forest certification and the forestry criteria of the Climate Bonds Initiative could be carefully used considering their voluntary nature and that they are only one of many means of proof. Therefore, **in EU legislation, it should be clearly acknowledged and made possible to prove sustainable practices based on well-developed forest governance systems including monitoring and enforcement systems in place at national level.** Furthermore, any requirement of forest management plans for forest holdings should strictly follow the respective legislation of Member States, especially regarding provisions for their content, disclosure of information, auditing and reporting intervals. In addition, the provisions on forest management plans should be consistent and in line with the Rural Development Policy 2014-2020<sup>8</sup> that acknowledges the small-scaled nature of private forest ownership in the EU.

The aforementioned recommendations will allow the European Union to send out a clear message to investors on how to promote the development and sustainable use of forest resources and the entire forest-based value chain with a view to positively contribute towards achieving the Paris Agreement climate objectives.

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