



# CEPF members

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## **National associations:**

Austria, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, Norway, Portugal, Slovenia, Spain, Sweden, Switzerland

## **Associated members:**

CONFI, Waldverband Austria, Institut Agrícola Català de Sant Isidre, UCFF



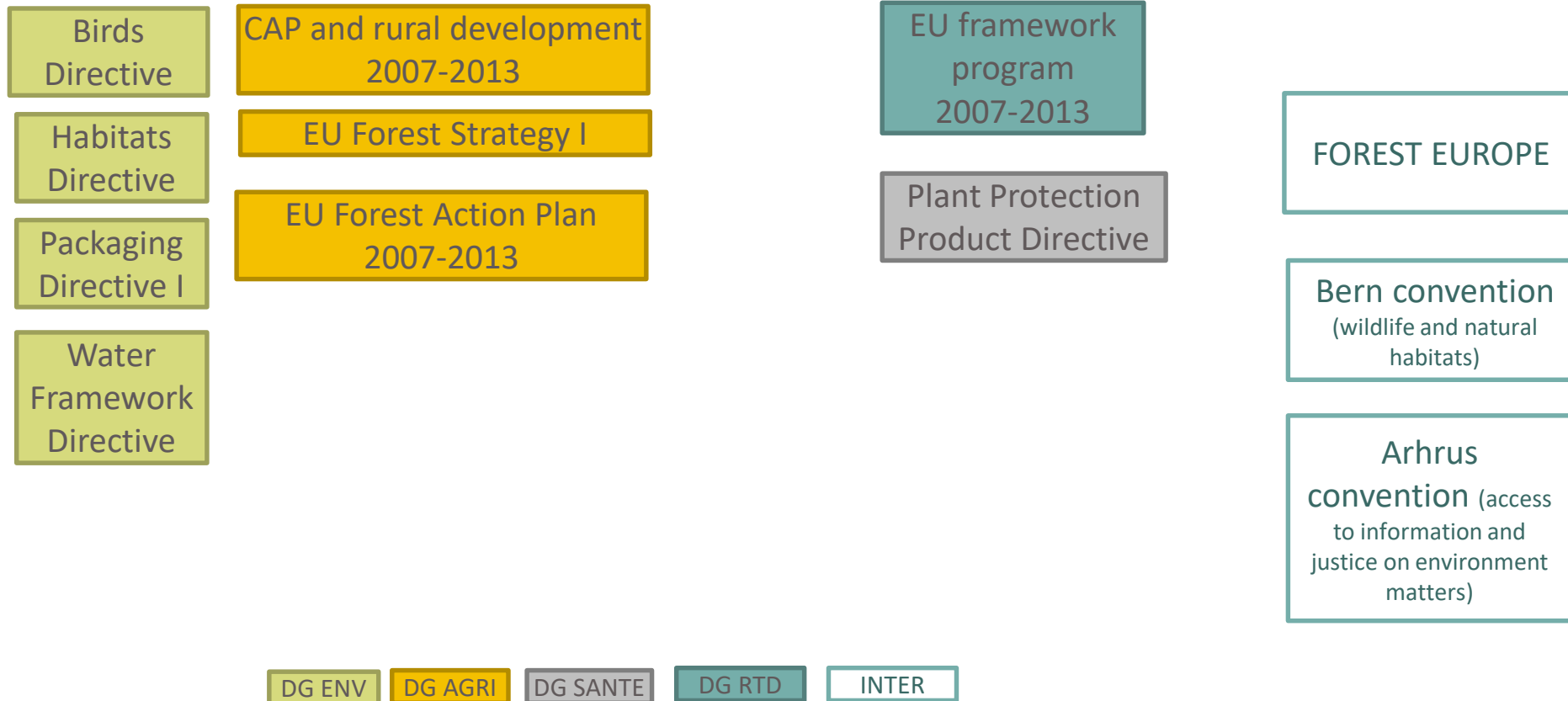
# European forest facts

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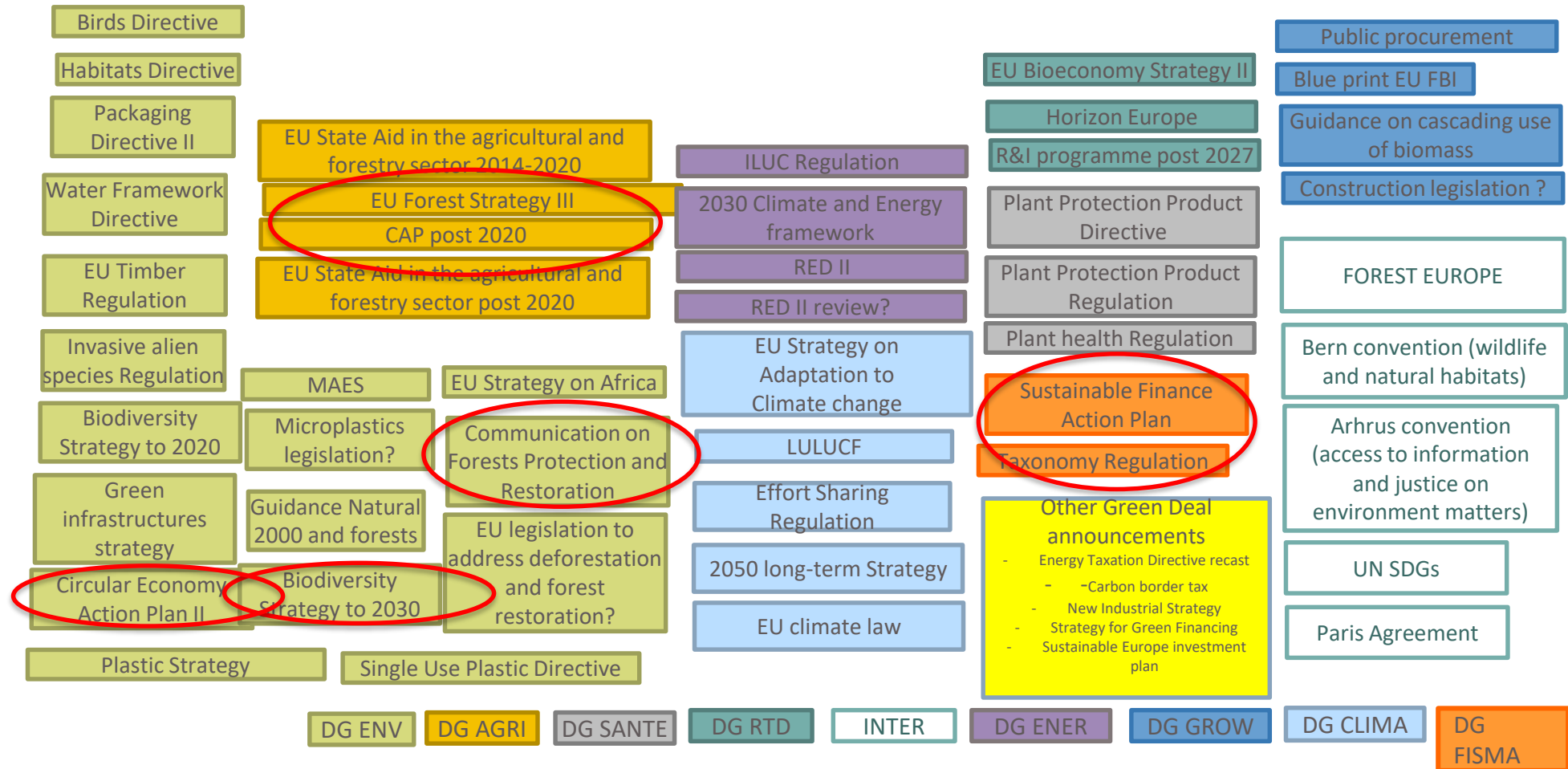
- 182m ha (42% of EU land area)
  - Growth in past 25 years: +9M ha, +7.4bn m<sup>3</sup>
- 60% are private
  - 16M private forest owners
- 90% EU timber for EU wood industry
- 50% of Natura 2000 network
- 90% available for recreational purposes



# Forest-related EU policies: 1979-2007

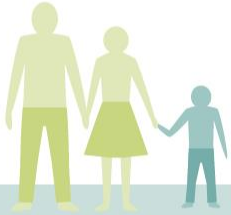


# Forest-related EU policy: 2020 and beyond





Confederation of European Forest Owners



# Sustainable Finance: Taxonomy Regulation



# Sustainable Finance in the EU Sustainability Framework


## EU Sustainability Policies

Climate and Energy	Environment	Investment and Growth	Sustainable Finance
<ul style="list-style-type: none"><li>2030 Climate and Energy Framework</li><li>Energy Union Package</li><li>EU Strategy on Adaptation to Climate Change</li></ul>	<ul style="list-style-type: none"><li>Environmental policy objectives, e.g. air, water, land, biodiversity</li><li>Circular Economy and waste legislation</li></ul>	<ul style="list-style-type: none"><li>Investment Plan for Europe (Fund for Strategic Investment (EFSI); InvestEU; EU cohesion policy funds)</li><li>External investment plan</li><li>Horizon 2020</li></ul>	<ul style="list-style-type: none"><li>Sustainable Finance within the Capital Markets Union</li></ul>
<ul style="list-style-type: none"><li>Long-term strategy to reach carbon neutrality by 2050<ul style="list-style-type: none"><li>EU Environmental Action Programme</li></ul></li></ul>			


Sustainable Finance as an enabler to achieving EU sustainability objectives

# Action Plan on Financing Sustainable Growth (March 2018)

One comprehensive strategy | Three main objectives | Ten Actions

1  Reorienting capital flows towards sustainable investment

2  Mainstreaming Sustainability into risk Management

3  and Fostering transparency Long-termism


## Actions

1  Establish EU Sustainable Taxonomy

2  Create Standards and Labels


3  Foster Investment in Sustainable Projects

4  Incorporate Sustainability in Investment Advice


5  Develop Sustainability Benchmarks

6  Integrate ESG in Ratings and Market Research

7  Clarify institutional investors and asset managers duties

8  Incorporate sustainability in prudential requirements

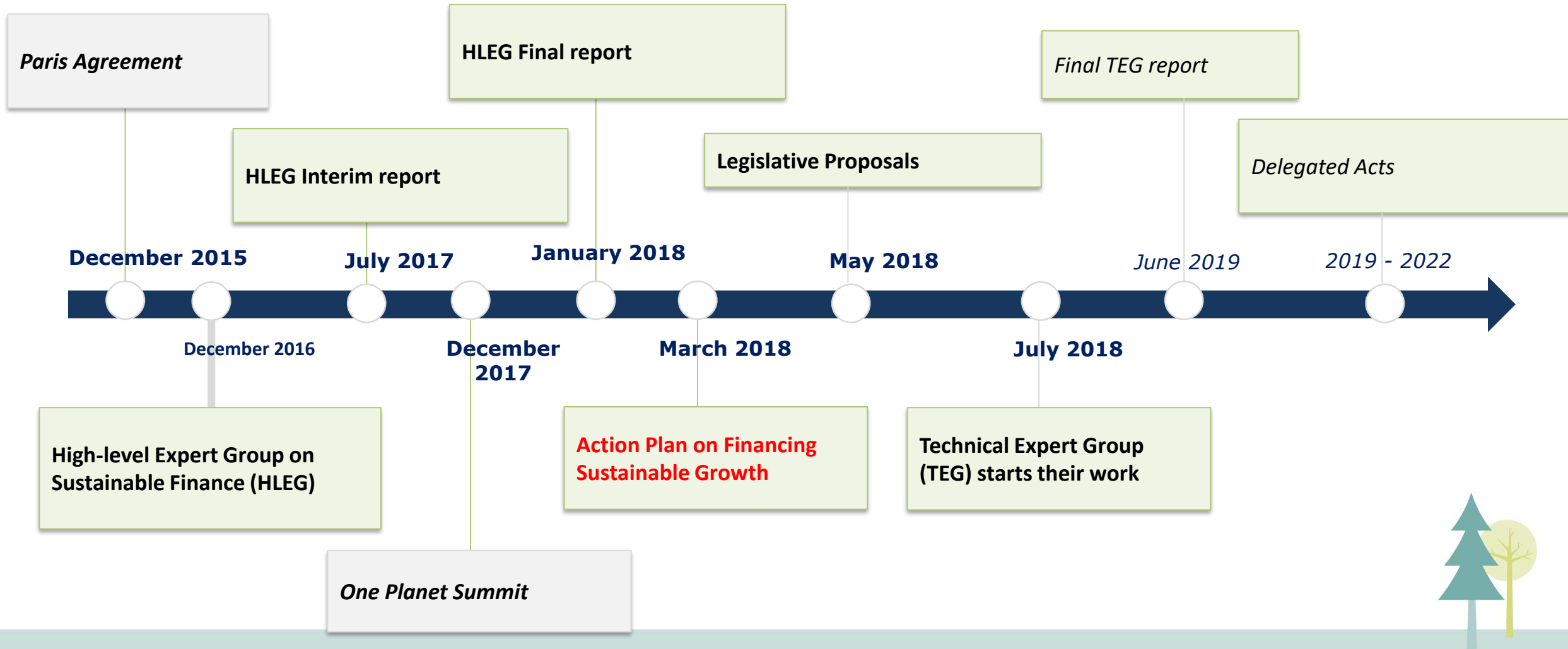
9  Strengthen Sustainability Disclosure & Accounting

10  Foster Sustainable Corporate Governance





# EU Timeline on Sustainable Finance



# The Taxonomy Proposal

**What is the Taxonomy?**

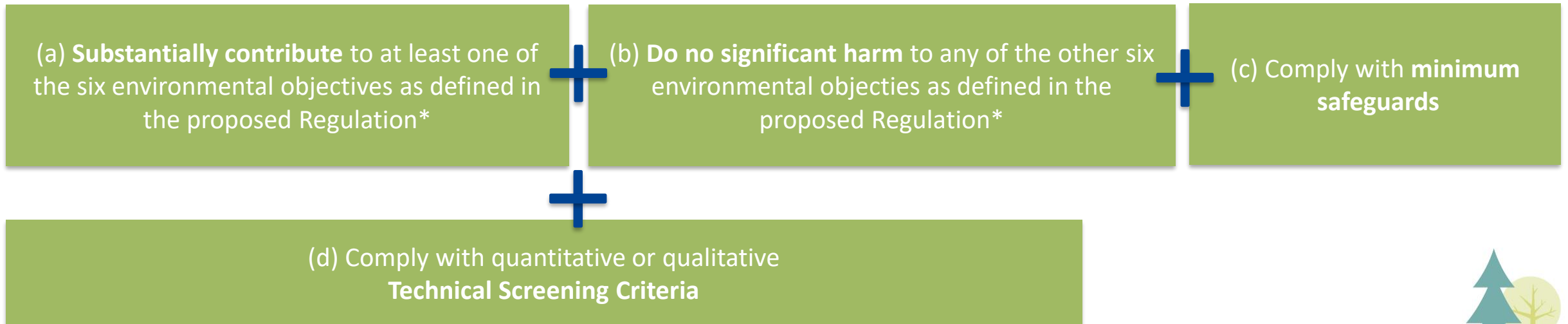
A **list of economic activities** that are considered environmentally sustainable for investment purposes.

**What is it not?**

It is **not a mandatory list** to invest in, nor a **standard**, nor an **exclusion list ('brown' list)**.

**What is set out in the Proposal?**

**The framework to develop the taxonomy.** For an economic activity to be on the list, it has to comply with four conditions:



\*The six environmental objectives as defined in the proposed Regulation are: (1) climate change mitigation; (2) climate change adaptation; (3) sustainable use and protection of water and marine resources; (4) transition to a circular economy, waste prevention and recycling; (5) pollution prevention and control; (6) protection of healthy ecosystems.



# The Taxonomy Proposal: environmental objectives

\*The six environmental objectives as defined in the **proposed Regulation** are:

- (1) climate change mitigation;
- (2) climate change adaptation;
- (3) sustainable use and protection of water and marine resources;
- (4) transition to a circular economy, waste prevention and recycling;
- (5) pollution prevention and control;
- (6) protection of healthy ecosystems.

**Council proposal** to change objective (6) to: protection and restoration of biodiversity and ecosystems

Negotiators of the **European Parliament**: Bas Eickhout NL/Greens and Sirpa Pietikäinen FI/EPP

## *Sustainability* objectives

- 1.** For the purposes of this Regulation, the following shall be environmental objectives:
- (1) climate change mitigation;
  - (2) climate change adaptation
  - (3) sustainable use and protection of water and marine resources
  - (4) transition to a circular economy, **including** waste prevention **and increasing the uptake of secondary raw materials**;
  - (5) pollution prevention and control;
  - (6) protection of **biodiversity and** healthy ecosystems, **and restoration of degraded ecosystems**.
- 1a.** *The objectives set out in the first paragraph shall be measured by harmonised indicators, life cycle analysis and scientific criteria, and be fulfilled ensuring they are up to scale to the upcoming environmental challenges.*



# SFM definition in article 2 or in recital

(n) 'sustainable forest management' means using forests and forest land in *a way, and at a rate, that maintains their biodiversity, productivity, regeneration capacity, vitality and their potential to fulfil, now and in the future, relevant ecological, economic and social functions, at local, national, and global levels, and that does not cause damage to other ecosystems.*

(n) 'sustainable forest management' means using forests and forest land in *accordance with applicable legislation.*

*Recital (19a)*

In the context of this Regulation, 'sustainable forest management practices'<sup>42</sup> should be considered by including the stewardship and use of forests and forest land in a way, and at a rate, that maintains their biodiversity, productivity, regeneration capacity, vitality and their potential to fulfil, now and in the future, relevant ecological, economic and social functions, at local, national, and global levels, and that does not cause damage to other ecosystems, as defined in Resolution H1 General Guidelines for the Sustainable Management of Forests in Europe, MCPFE 1993.



# Sustainable finance: the legislative proposal



Brussels, 19 February 2019

## The role of forest management in the upcoming taxonomy regulation for sustainable investments

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 topic of forest management in the proposed taxonomy regulation, notably on the first round of climate mitigation activities drawn up by the Commission's Technical Expert Group on Sustainable Finance (TEG)<sup>2</sup>.

The undersigned organisations welcome the fact that forest management activities have been included in the scope of the proposed regulation, which applies the definition of Sustainable Forest Management



12/03/2019

## Joint Press Release

### European Parliament Committees' report taxonomy for Sustainable Investment – some improvements made to the draft report but still not satisfactory

The report voted yesterday by COM ENVI and COM ECON added a new layer of complexity that could result in additional administrative burdens for agriculture and forest based sectors. By including sustainability indicators without clearly referring to the existing ones, the report could also create confusion and uncertainty for future investments.

The report, which was voted yesterday, features aspects that farmers, forest managers, owners and cooperatives find alarming. The amendments could jeopardise the development and sustainable use of European natural resources and the entire bioeconomy value chain which aim to positively contribute to meeting the Paris Agreement climate objectives and the UN Sustainable Development Goals.

Although the compromise amendments adopted in COM ENVI and COM ECON proposed some positive

# Sustainable Finance: the expert group's report



Brussels, 5 September 2019

## 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



# Sustainability criteria for forestry (1st part)

Description	<b>Existing Forest Management</b> The Taxonomy defines forest as per FAO FRA 2020.
<b>Mitigation criteria</b>	
Principle	<p>Existing forest management shall maintain and/or increase carbon sinks of above and below ground carbon.</p> <p><i>All the Criteria are additive and shall apply together:</i></p> <ul style="list-style-type: none"><li>• Apply the following Sustainable Forest Management (SFM)<sup>213</sup> requirements:<ul style="list-style-type: none"><li>○ Identify and apply forest management practices that increase and/or maintain existing carbon stocks from above and below ground carbon overall, while maintaining or improving the soil quality, and biodiversity;</li><li>○ Maintain or improve the long-term capacity of the forest to deliver multiple services (e.g. ecosystem services, timber production);</li><li>○ Land must not have been converted from high carbon stock land (i.e. primary forest, peatlands, wetlands, and grasslands) which has this status in or before January 2008;</li><li>○ Carry out harvesting activities in compliance with national laws;</li><li>○ Regenerate harvested forests.</li></ul></li><li>• Establish a baseline GHG balance of carbon pools<sup>214</sup> at the beginning of the forest management/restoration activity;</li><li>• Demonstrate continued compliance<sup>215</sup> with the Sustainable Forest Management requirements and increase and/or maintenance of carbon sinks from above-ground carbon over time, supported by and</li></ul>



	disclosed through a forest management plan (or equivalent <sup>216</sup> ) at 5 to 10-year intervals, that shall be reviewed by an independent third-party certifier and/or competent authorities.
Metric	<ul style="list-style-type: none"> <li>• Sustainable Forest Management (SFM) requirements as described above;</li> <li>• GHG balance baseline<sup>217</sup> is calculated for above-ground carbon pools, based on growth-yield curves for species per m<sup>3</sup>/year/ha, carbon convertible.</li> </ul>
Threshold	<ul style="list-style-type: none"> <li>• Continued compliance with the Sustainable Forest Management (SFM) requirements is demonstrated and continuously disclosed at 5-year intervals through a forest management plan (or equivalent) that shall be reviewed by an independent third-party certifier and/or competent authorities (as described in Criteria 3).</li> <li>• Carbon stocks shall increase above carbon baseline over the economic lifetime<sup>218</sup> of the forest. Changes in carbon stocks should be disclosed based on growth yield curves in 5 to maximum 10 years intervals<sup>219</sup> through a forest management plan (or equivalent) that shall be reviewed by an independent third-party certifier and/or competent authorities (as described in Criteria 3)<sup>220</sup>.</li> </ul>
<b>Rationale</b>	
A substantial portion of forestry activities will fall under the bracket of existing forest management.	





# Example of "do not significantly harm" criteria

## Do no significant harm assessment

### (6) Ecosystems

- Take measures to ensure sustained or improved conservation status at the landscape level<sup>221</sup>
- In designated conservation areas, actions should be demonstrated to be in line with the conservation objectives for those areas.
- No conversion of habitats specifically sensitive to biodiversity loss or of high conservation value such as grasslands and any high carbon stock area (e.g. peat lands and wetlands), and areas set aside for the restoration of such habitats
- Develop a forest management plan (or equivalent) that includes provisions for zoning conservation areas, and for maintaining biodiversity<sup>222</sup>
- Evaluate the ecosystem service provision with the aim to not decrease the amount and quality of ecosystem services provided.
- Forests are monitored and protected to prevent illegal logging, in compliance with national laws



# Observations of other forest owners' challenges in the TEG report

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- Taxonomy goes beyond the 2030 Climate and Energy Framework and especially the REDII. Forest biomass for bioenergy would be sustainable according to REDII but the same biomass would not be sustainable as it comes to the taxonomy. Impact of the regulation and its delegated acts to public funding such as CAP-post 2020?
- Forest Management Plans (FMP)
  - To be audited by a third-party -> increased bureaucracy & done by whom?
  - What about family forest holdings without FMPs?
- Role of forest certification in the EU legislation should absolutely be avoided!



# Next Steps

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- Trilogue negotiations ongoing – with the aim of reaching an agreement before end of year
- No clear idea yet on the timetable of the EC to present the “level 2 act”
- This level 2 act could be a delegated act or implementing act depending on ongoing political discussions
- There will be a formal public consultation by EC prior to the adoption of level 2 act
- DG ENV also mentioned a coming platform expected to start working on early 2020 and said that the setting and composition of this platform have not been set yet
- Parallel TEG prepares final recommendations to the EC on sustainability criteria

