

## The NSPA's views on the draft delegated acts on sustainable finance – EU classification system for green investments

*The Northern Sparsely Populated Areas network, NSPA, represents the interests of the four northernmost regions of Sweden (Norrbotten, Västerbotten, Jämtland Härjedalen and Västernorrland), the seven eastern and northernmost of Finland (Central Ostrobothnia, Kainuu, Lapland, North Karelia, Northern Ostrobothnia, Pohjois-Savo and South Savo), as well as the two northernmost regions of Norway (Nordland, Troms & Finnmark).*

The Northern Sparsely Populated Areas (NSPA) adopts a positive stance towards a climate neutral Europe by 2050 and acknowledges the need to stimulate sustainable investments. However, the currently proposed delegated act from the European Commission on a Taxonomy for such investments, gives rise to concerns about developments in the NSPA area and for the climate work in general, as it complicates investments in renewable energy sources.

**The NSPA would therefore like to issue the following comments:**

- **The taxonomy criteria carry too extensive consequences to be decided without a more thorough dialogue.**
- **Taxonomy should be synchronised with other EU level climate and environmental legislation.**
- **Sustainability assessment must take into account regional differences.**
- **Active and sustainable forestry is crucial to EU's green transition efforts and should be defined as sustainable.**
- **Carbon balance should not be calculated based on individual forest stock, nor over a short period of time.**
- **Bioenergy and biofuels are crucial for climate efforts and should not be designated as a transition technology.**
- **Hydropower criteria in the delegated act should be synchronised with the Water Framework Directive.**

### **General viewpoints**

The taxonomy criteria carry too extensive consequences to be decided without a more thorough dialogue

The sustainability criteria in taxonomy will be strongly governing for future investments in the EU. The criteria will directly affect how banks and credit institutions choose to lend money and how the financial markets choose to invest. The criteria may also affect other EU funds and government aid rules, amongst other things. The responsibility, delegated to the Commission, to decide on the technical specifications of sustainability criteria may seem to revolve around details whilst, in fact,

the exact design of these specifications carries tremendous impact. Given this, we lack a careful impact assessment of the consequences and if the taxonomy will really reach its set goals.

The delegated act covers over 500 pages of technical details on many different areas. It is unrealistic to be able to analyse the consequences of the proposal within a consultation period of 4 weeks. The NSPA emphasises that a longer and more thorough consultation is required.

#### Taxonomy should be synchronised with other EU level climate and environmental legislation

The sustainability criteria in taxonomy seem to have been developed alongside other EU climate and environmental legislation.

Countries and companies are working to adapt to the new requirements and sustainability criteria governed by e.g. the Renewable Energy Directive (RED II) and the Water Framework Directive. The sustainability criteria in taxonomy and RED II differ, however, creating an unfortunate ambiguity about what should be considered sustainable in the EU. Hydropower, which has been operating according to the guidelines of the EU Water Directive for the last 20 years, now faces dual regulations with conflicting demands to comply with.

The NSPA underlines the importance of technology neutrality within the framework of taxonomy and foresees a risk that the structure of taxonomy fails to incorporate the larger system perspectives, as it is based on the assessment of individual activities.

#### An assessment of sustainability must take into account regional differences

Europe's countries and regions have very different set-ups. The NSPA area is rich in forests and large bodies of water. We have a cold climate, long distances and a small population relative to the surface upon which we live. What is sustainable in one place can be unsustainable in another. The NSPA lacks an openness to regional differences when it comes to the sustainability criteria of the delegated act.

### **Forestry**

#### Active and sustainable forestry is crucial to EU's green transition efforts and should be defined as sustainable

Northern Sweden and Finland are regions covered by forests with a steadily increasing forest stock, as is also the case for Northern Norway. The timber stock and carbon storage are substantially increasing due to an active forestry, at the same time as the timber harvest also increase. In addition to cultivated forests, the Nordics has protected forest land that sum up to a large part of the entire forest stock in all other EU countries together.

The NSPA perceives that the criteria of the delegated act define all active forestry as something negative from a climate perspective, and we strongly oppose this. To achieve climate neutrality by 2050, the ability to conduct efficient and sustainable forestry is crucial. Forests with good growth

over time will in the foreseeable future bind carbon dioxide and deliver sustainable raw materials towards biobased products that are beneficial to society and replace fossil raw materials.

Every year, the forest industry in the NSPA area contributes with climate benefits that are almost twice as large as the emissions reported in the area. The EU should instead stimulate the reduction in fossil emissions that arise when fossil-based products are replaced with forest products.

Carbon balance should not be calculated based on individual forest stock, nor over a short period of time

The NSPA forest landscape contains forests of varying ages that are harvested at different times. The rotation period for forests is 80-100 years, which means that the requirement for carbon balance within 20 years for each individual forest owner is virtually impossible to achieve and will not lead to any further climate benefits.

Sustainable forestry, with continuous replanting and taking into account soil carbon storage and long-term production capacity, enables NSPA forests to be harvested to volumes corresponding to its growth, while keeping the carbon storage in the forest landscape intact or even increasing it over a longer period of time. At the same time, biodiversity is preserved.

The NSPA emphasises that the role of forests in climate efforts cannot be assessed based on narrow observations of carbon flows in individual forest stocks or over a short period of time.

### **Bioenergy**

Bioenergy and biofuels are crucial for climate efforts and should therefore not be designated as a transition technology

Bioenergy from forest biomass is one of the foundations of NSPA energy systems and accounts for a large part of the energy supply. Residual streams of forest industry are used for the production of heat and electricity in heating plants and combined heat and power (CHP) plants, replacing oil and coal. Residual products from the pulp industry are used to produce biofuels and there is great potential to increase production, also supported by the national governments.

There is also, since many years, established EU support for green transition that has been invested in the NSPA regions in the production of biomass and biofuels from forest raw materials. The Commission has, furthermore, taken the initiative to increase the share of fossil-free aviation fuels and in the foreseeable future biofuels are set to play a role here.

Not classing biofuels as sustainable will obstruct necessary investments. Bioenergy is also a resource in the production of green hydrogen.

RED II emphasises the importance of bioenergy for our energy supply and stipulates rules on how bioenergy can be produced sustainably. The delegated act from the European Commission, where

bioenergy is considered a transition technology, however, is not at all in tune with RED II. This ambiguity seriously risks harming the willingness to invest in sustainable bioenergy solutions.

Another example is the Just Transition Fund (JTF), where investments in biorefineries are proposed for a sustainable transition, which contradicts the criteria in taxonomy where bioenergy is proposed to be phased out. The NSPA underlines that bioenergy should be regarded as a long-term technology and as part of a sustainable energy supply.

The bioeconomy, including products from side-streams of wood industry and forestry as is the case for biomass in the NSPA, can overall be put forward as one of the best examples of a circular economy, for the EU to support also future investments in.

### **Hydropower**

#### Criteria for hydropower in the delegated act should be synchronised with the Water Framework Directive

The NSPA welcomes that hydropower is no longer considered a technology to be phased out, as was first proposed in the TEG report. What regards hydropower, ambitious national plans are foreseen, that aims to achieve the best balance between the aquatic environment and hydropower.

The detailed requirements for hydropower in the Commission's proposal are unilaterally focused on the aquatic environment, and not on renewable energy production. The requirements are also more detailed compared to the Water Framework Directive, which already sets high environmental objectives.

The NSPA emphasises the importance of striking a balance between environmental objectives and production, and of synchronizing the criteria of the delegated act with the Water Framework Directive.

*Adopted by the NSPA Steering Committee, December 18, 2020.*

**Nils-Olov Lindfors**, Norrbotten, *Chair*

**Rickard Carstedt**, Västerbotten

**Elise Ryder Wikén**, Jämtland Härjedalen

**Glenn Nordlund**, Västernorrland

**Tomas Norvoll**, Nordland

**Bjørn Inge Mo**, Troms & Finnmark

**Satu Vehreävesa**, Pohjois-Savo

**Eira Varis**, North Karelia

**Timo Pärkkä**, Central Ostrobothnia

**Tytti Määttä**, Kainuu