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COMMUNICATION FROM THE COMMISSION TO THE COUNCIL AND THE EUROPEAN PARLIAMENT

on innovative and sustainable forest-based industries in the EU

A contribution to the EU's Growth and Jobs Strategy

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1. INTRODUCTION

The industries producing pulp, paper, paper packaging and the woodworking industries like sawmills and wood-based panels have common denominators in their main raw materials: wood or recovered paper and wood. Hence the concept of "forest-based industries" is applied. It also includes specialised sectors such as cork and the printing industry. In the value chain from forest to end use products, the competitiveness of intermediate production phases benefits the other steps in the production process. For example, a competitive forestry output enhances wood and paper industries competitiveness.

The forest-based industries, with a production value of € 365 billion, and an added value of around € 120 billion have more than 3 million jobs in 344 000 enterprises. Many parts of these industries play an essential role in maintaining sustainable employment in rural areas.

Forest-based industries in the EU are generally competitive, having a very good technical and commercial performance. The pulp and paper, woodworking and printing sectors are world leaders in many areas. However, the sector is facing a number of challenges, in particular as regards the access to raw materials, the need to reduce greenhouse gas emissions, innovation, trade and information of forest-based products. Additionally, for the woodworking and printing sectors, the SME dimension is very relevant.

This Communication on the competitiveness, innovation and sustainability of the forest-based industries is a further step in implementing EU industrial policy strategy outlined in the Commission's communication of October 2005[1], announcing several sectoral initiatives, including a communication on these industries.

The actions proposed are complementary to the Forest Action Plan[2], which the Commission adopted in June 2006, and its objective to improve the long-term competitiveness of the forest-based sector. They have been the subject of a public consultation and have been reviewed by the Advisory Committee on Community Policy regarding Forestry and Forest-based Industries.

2. NEW CHALLENGES FOR THE EU FOREST-BASED INDUSTRIES

a) Access to raw materials

Since forest-based industries use large quantities of wood, its availability at a competitive price is a determining factor for their performance. Wood is the highest cost for many of these industries. In paper making more than 30 % of total costs are for wood; in the sawmill industry 65 to 70%. Therefore, it is very important to promote domestic supply and to avoid restrictions in the import of wood.

The wood raw material base for the forest-based industries is renewed through replanting and natural regeneration in forests. There is potential to increase domestic wood supply through the framework of sustainable forest management[3]. Wood markets must work efficiently and the supply should be increased through active participation, including forest owners. At the same time, it is important to facilitate trade in wood raw materials, as roundwood imports comprise about 10 % of the total wood supply to the EU forest-based industries.

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1 COM(2005) 474 final
2 COM(2006) 302 final
3 as defined by the Ministerial Conference for the Protection of Forests in Europe Resolutions from Lisbon and Vienna on Sustainable Forest Management

With the rising pressure on primary raw materials, the use of recovered raw materials continuously increases. Today, about half of the EU paper production is based on recovered paper, which means a growth of 25% since 1998. Paper recovery and recycling, linked to increased processing efficiency, have allowed substantial production increase without using more new wood. A partnership of paper manufacturing, converting and recycling industries, publishers, printers and makers of inks and glues[4] aims to further increase the paper recycling rate and improve the quality and recyclability of recovered paper. More efficient collection promoted by public authorities will also reinforce the development of more economically efficient and environmentally friendly activities, and contribute to strengthening EU competitiveness in this field. Many wood panels, in particular particleboard and medium density fibreboard, can be made from recovered wood. However, wood is not recovered as much as paper, due to its longer-term use and more dispersed disposal.

Furthermore, the increasing competition for wood as a raw material has to be taken into account in different policy contexts, such as wood for renewable energy, biodiversity needs, recreation and other social functions. The growing demand for renewable energy continues to increase competition for wood, especially in the wood panel and pulp sectors. Increased demand is not always matched by a corresponding supply increase, thereby leading to higher costs. In response to the European Council of March 2007, the Commission's proposal of 23 January 2008 on the promotion of renewable energies[5] addresses this issue. It fully recognises that biomass is not only used for the production of renewable energies, but also for other purposes and calls upon Member States and the Commission to pay attention to the different uses in the national action plans and the general monitoring and reporting.

Illegal logging and associated processing and trade of wood products undermine legitimate forest-based industries and livelihoods by creating environmental and social problems as well as under-cutting prices and creating a poor sectorial image. The EU FLEGT (Forest Law Enforcement, Governance and Trade) Action Plan addresses these concerns through supply- and demand-side measures.

b) Impact of climate change policies

A sustainable and efficient forest policy enhances the contribution of forests to the reduction of greenhouse gases. In addition, paper and wood products provide additional storage for the carbon removed by forests and increased paper and wood recycling, rather than landfilling, prolongs the capacity of wood products to retain carbon.

At the same time, the EU's climate change policies have an important impact on pulp, paper and some wood panel production as a consequence of their energy-intensive processes. Fuel and electricity represent between 13 and 18% of the manufacturing cost in EU pulp and paper. Paper mills are big energy consumers, but chemical pulp mills can be net energy producers. About half of the primary energy used is produced by these industries from wood biomass. In sawmills and wood panels there is also high-energy self-sufficiency for heat, though electricity often comes from external suppliers. Conversely, mechanical pulp and paper production are largely dependent on external electricity and gas. The recent increases in their prices had a significant impact on these industries.

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[4] European Declaration on Paper Recovery

[5] COM (2008)19 final

Reasons for higher price levels include higher primary fuel costs, the need to contribute to reductions in greenhouse gas emissions and the development of renewable energy sources[6]. High costs challenge industry competitiveness and reinforce the need for further market liberalisation and energy efficiency policies, so as to make Europe a more attractive place for the sector to invest in. The third energy package[7] from September 2007 for a competitive and efficient electricity and gas market in the EU is an important contribution.

As large emitters of CO_2 the forest-based industries will be required to make a major contribution to climate change mitigation. These industries must achieve high environmental performance and energy efficiency without losing competitiveness. It is not in the interest of the European Union that in the future production moves to countries with less strict emissions limits ("carbon leakage") as this would have negative environmental and economic consequences. For this reason, the Commission's climate action and renewable energy package of 23 January 2008[8] recognises and addresses the specific situation of energy-intensive industries. The package sets out clear criteria for identifying the energy-intensive industries that are exposed to the risk of carbon leakage. The Commission will determine the sectors or sub-sectors that fall within this category; they shall be allocated allowances free of charge up to 100 percent under consideration of most efficient techniques. In this context, the Commission will assess whether forest-based industries qualify for such treatment. In light of international negotiations of a global climate change agreement for the period post 2012, the Commission will further assess the situation of energy-intensive industries and might propose adjustments in particular in terms of free allocation or inclusion of imported products in the Community's Emission Trading Scheme.

Sectoral agreements based on industry-specific conditions can stimulate action in reducing emissions at the international level. Such sectoral agreements should lead to global emissions reductions of the magnitude required to effectively address climate change, and should be monitorable, verifiable and subject to mandatory enforcement arrangements.

Today and increasingly in the future, forest-based industries will play an important role as providers of heat and electricity as well as producers of wood-based biofuels, contributing to more efficient use of wood for both energy and forest products. Biofuels can be produced along with wood-based chemicals and other products in bio-refineries. The work of the Bio-refinery Task Force of the Forest-based Technology Platform is important to define key projects needed in this field. The industry has the experience, technology and supply chain to be part of the renewable energy solution.

c) Innovation and R&D

Increased investments in RTD and innovative use of technical and commercial know-how are necessary elements to further develop the competitiveness of these industries.

The Forest-based Sector Technology Platform (FTP) is an important instrument to coordinate research efforts by industry, the European Commission and Member States and should play a significant role in strengthening the sector's innovative capacity. The FTP has developed a Strategic Research Agenda that aims to increase the EU´s competitiveness by developing innovative products and services as well as improving raw material and energy efficiency.

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6 COM(2006)841 final

7 COM(2007)528, COM(2007)529, COM(2007)530, COM(2007)531, COM(2007)532

8 In particular COM (2008) 16 final

The pulp, paper and wood industries have gained from technical developments in the chemical industry. A similar synergy also exists within the machinery and the pulp and paper industries. Such advantageous cluster relationships should remain.

d) Trade and co-operation with third countries

Most parts of the forest-based industries face international competition. The number of pulp, paper and panel producers, sawmillers and printers competing on the global market is steadily increasing. The forest-based chain has been adapting to this situation by focusing on enhanced of productivity and investments in product development, innovation and research. Many EU firms are global players.

Nevertheless, EU wood and paper products still lack a level playing field for access to third country markets as a result of high tariffs and non-tariff barriers applied by some trade partners.

e) Communication and information

Demand for printing and packaging papers has been increasing for a long time, closely related to per-capita income growth. In many markets paper and printing industries face increasing competition from inter alia electronic media, leading to some overcapacity. Electronic and printed products can also complement each other. Paper packaging faces increased competition, mostly from plastics.

Per-capita demand for wood products is far lower in the EU than either North America or Japan, a major factor being that wood-framed housing is less prevalent. However, there is huge scope for growth in this area beyond the traditional regions.

There is a general need to improve information on forests and forest-based industries and on the qualities of forest products. Professional users as well as consumers need to be informed about the economic, technical and environmental characteristics of wood, a renewable, recyclable and climate-friendly raw material.

3. AN INTEGRATED APPROACH TO ENHANCE THE EU FOREST-BASED INDUSTRIES' SUSTAINABLE COMPETITIVENESS

3.1. Overall Aims

Within EU Industrial Policy and its Sustainable Development Strategy, which aim at creating better framework conditions for manufacturing industries, forest-based industries serve as an example of a sector very much in step with the evolution of EU policies. These industries are steadily modernising, putting knowledge and innovation to good effect, so as to consolidate their sustainability while meeting competitiveness challenges.

Due to their raw material dependence, their role in climate change mitigation and energy supply and their high energy intensity, the Commission's integrated energy and climate change package of 23 January 2008 has direct relevance to these industries.

Thus, the following policy objectives ensure a coherent approach for strengthening the competitiveness of the forest-based industries, while integrating climate change and energy objectives into the sector's industrial strategy:

- harnessing the competences in related sectors, and continuing to support a high level of innovation and RTD.

- contributing to sustainable energy supply and promoting sustainable forest management.
- Promoting sustainable raw material supply while ensuring fair competition.
- Further improving resource efficiency in the use of raw material.
- Facilitating forest-based industries' full participation in markets for renewable energy sources and, supplying heat, electricity and wood-based bio-fuels.

3.2. Actions to improve the competitiveness of the EU Forest-based industries

a) Access to raw materials

- A sustainable supply of wood raw material to the forest-based industries should be facilitated, better matching supply and demand. The supply of wood raw material for the industry as well as for the energy sector can be enhanced through an active sustainable forest management policy. Logistical relations between forest owners and industry have to be improved to expand supply.
- The possible gap between supply and demand could be mitigated if the total forest area and wood volume could be further increased through afforestation, reforestation and enhanced mobilisation.
- Further market development for recovered paper and wood should be encouraged, including further broadening of industry participation, aiming to increase the use of recovered paper and wood.
- Member States and industry should promote cost-efficient solutions with separate collection systems for used paper and wood products.
- It is important to encourage industry's further engagement to reduce illegal logging and related trade in illegal timber products[9]. Sustainable forest management should be further encouraged, e.g. using forest management certification or equivalent schemes and integrated chain-of-custody procedures that allow consumers to discriminate positively in favour of products from sustainable and legal sources.
- The use of forest resources for different purposes should be balanced. The Commission's proposal on the promotion of renewable energies[10] therefore fully recognises that biomass is not only used for the production of renewable energies, but also for other purposes and thus calls upon Member States and the Commission to pay attention to the different uses in the national action plans and the general monitoring and reporting.

Actions

1. Member States, industry and forest owners are encouraged, within the framework of the national forest programmes and similar measures and in line with the Forest Action Plan, to facilitate and promote afforestation, reforestation and active sustainable forest management in order to contribute to mitigate climate change and restore biodiversity while increasing wood supply.

2. In coordination with the Standing Forestry Committee ad-hoc working group on

9 The Beverage Carton Manufacturers have adopted in July 2007 a Commitment to achieve 100% traceability of all wood used in their manufacture worldwide.

10 COM (2008)19 final

mobilisation, the Advisory Committee on Forestry and Forest-based Industries will explore additional solutions, besides mobilisation, to the possible gap between supply and demand for wood.

3. The Advisory Committee on Community Policy regarding Forestry and forest-based industries will follow the development of markets and collection systems for recovered paper in order to provide advice to further promote and extend cost-efficient and good quality collection systems.

4. To increase the recovery level for wood products, the Commission will launch a study identifying solutions to improve the collection procedures and stimulating recovery among consumers and producers.

5. A Round Table with industries, timber importers and distributors of forest-based products and other relevant stakeholders will be set up under the Advisory Committee on Forestry and forest-based industries to develop further private sector measures such as codes of conduct to exclude the trade and use of illegally harvested timber and products, in line with the FLEGT Action Plan.

6. Industries and forest owners are encouraged to undertake initiatives to help prevent illegal logging and promote sustainable forest management. Their initiatives in the areas of certification and equivalent schemes, as well as labelling are encouraged.

7. The Commission and Member States will clarify the application of public procurement Directives for wood and paper products through an exchange of ideas and experiences concerning national public procurement criteria for legal and sustainable timber.

8. Member States and the Commission are called upon to pay attention to the different uses of biomass when developing the national action plans and in the context of general monitoring and reporting on renewable energies.

b) Climate change policies and environmental legislation

- Forests and forest-based industries have a strategic role in climate change mitigation that should be strengthened.
- Carbon storage in harvested wood products can extend the carbon sequestration benefits provided by forests; their role in mitigating climate change should thus be developed.
- The effects of climate change policies and the emissions trading system on some parts of the pulp and paper industry are important. Such policies can stimulate innovation and convey the necessary economic signals to achieve a low-carbon and sustainable economy most cost-effectively, while providing an incentive for other large emitting countries to set up ambitious emission reduction measures as of 2012, too. The Commission's proposal of 23 January on a revision of the EU Emission Trading Scheme provides for the necessary measures, which now need to be prepared..
- Community environment legislation applying to the forest-based industries should be based on the principle of sustainable active use of forest resources and production processes, based on Best Available Techniques, while leaving room for flexible solutions.
- The Directive on Integrated Pollution Prevention and Control (IPPC) and the related Reference Documents have played an important role in the development of emissions prevention and control measures in the forest-based industries. A consistent implementation of this Directive by Member States is an important element for sustainable production in the EU. In the Commission proposal for a Directive on Industrial Emissions,

merging IPPC and related sectoral Directives, “Best Available Techniques” and “Emerging Techniques”, crucial to reconcile sustainability and competitiveness, are strengthened.

Actions

9. The advantages and challenges of proposing to include carbon storage in harvested wood products as a supplementary element in the international negotiations regarding climate change policies beyond 2012 will be explored.

10. The Commission will explore, together with stakeholders and third countries, the role of sectoral agreements that should lead to global emissions reductions of the magnitude required to effectively address climate change, and should be monitorable, verifiable and subject to mandatory enforcement arrangements. This will include best practice methodologies related to data collection and key performance indicators.

11. The Commission will prepare the measures set out in its climate action and renewable energy package of 23 January 2008 on energy-intensive industries, in particular the determination of sectors or sub-sectors concerned by carbon leakage and of the appropriate allocation. In this context, the Commission will assess whether forest-based industries qualify for such treatment. In light of international negotiations of a global climate change agreement for the period post 2012, the Commission will further assess the situation of energy-intensive industries and might propose adjustments in particular in terms of free allocation or inclusion of imported products in the Community's Emission Trading Scheme.

12. In the Commission’s review of the pulp and paper Reference Document, the industry will be invited to contribute to the information exchange. Attention should be paid to identify flexible technical solutions and facilitate consistent implementation by Member States.

c) Innovation and R&D

- The level of knowledge, innovation and RTD within the forest-based industries should be enhanced as well as the information about the characteristics of wood products.
- The Strategic Research Agenda of the Forest-based Sector Technology Platform integrates a coherent approach for research priorities covering the whole value-chain from wood and secondary raw material to manufacturing in the pulp and paper and in the woodworking industries.
- The sector could benefit from cluster approaches facilitating a close cooperation between businesses, research communities and end users, offering a platform to overcome resource limitations due to the fragmented structure of industry and contributing to improve SMEs innovation and growth potential.
- The growth and job potential of these industries provides particular opportunities for the development of less developed, rural and peripheral regions of the EU where many related specialised skills are often concentrated.

Actions

13. Member States and industry should consider the Strategic Research Agenda in their RTD programmes and make adequate provision for education and training in the forest-based sector.

14. The forest-based industries will have opportunities within the EU 7th Framework Programme. In particular, methods for production of bio-fuels and bio-based chemicals from

wood and increased efficiency using new and recovered fibre and solid wood will be encouraged, as well as products and process development for packaging, printing and construction.

15. Member States and regions are encouraged to adopt and develop the "cluster" concept to enhance existing and create new competitive synergies in the forest value chain, especially for SMEs. The Competitiveness and Innovation Programme on transnational cluster cooperation and development of cluster strategies at sectorial level can support this.

16. Cohesion Policy support during 2007-2013 will assist the improvement of sector competitiveness and sustainability, particularly in the most disadvantaged EU regions. Supported activities will include, e.g. investments in developing of renewable energy technologies or improving RTD and innovation capacities.

d) Trade and co-operation with third countries

- Access to raw materials and a level playing field in external trade are essential elements for ensuring a proper framework and environment for EU firms to compete worldwide.
- Progress on minimum international requirements in the areas of environmental protection and health & safety would contribute to a more balanced global framework for European players.
- Standardisation facilitates trade of wood and paper products. Under the Construction Products Directive[11] harmonised European product standards permit equitable assessment across the EU of the technical performance of building products, including those of domestic and imported wood.
- Co-operation with third countries on standards for wood construction products is also important, especially those with expanding demand for high quality wood products. Thus, third countries may also recognise European standards.

Action

17. The Commission will continue its efforts to establish and implement a market access strategy coherent with its growth and jobs and sustainable development objectives, ensuring access to raw materials internationally and supporting the elimination of tariff and non-tariff barriers.

18. The Commission will launch a dialogue with interested third countries to address technical, regulatory and related issues.

e) Communication and information

- Communication and image represent important factors contributing to forest-based industries competitiveness. Knowledge levels on forest products and forest-based industries should be improved.
- Communication measures supported and implemented by the industry sector are essential to highlight the characteristics s of the forest-based sector.
- Public-sector institutions, universities and industry can contribute to analysis of and building knowledge on these industries.

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11 Directive 89/106/EEC

Action

19. Member States, regional authorities, academic and educational institutions will be invited to cooperate within multinational networks in order to examine and ensure the follow-up of long-term changes in the forest-based industries.