



## SWEDEN

### **Emerging issues facing the industry: Climate change, wood raw material and energy**

There is an increased demand of wood from the bio energy sector, which puts pressure on the supply of wood to the forest industries. The Swedish Forest Industries Federation has investigated the possibilities to increase energy production from the forests without hampering the industry raw material. The amount of branches and tops for energy production could be almost doubled from 8 to 15 TWh. New selections for energy production: stumps, longer tops etc., could amount to 12 TWh. In total, the possible energy selections in the forest today, at retained production and harvest, could be 19 TWh. If the forest production could be increased (see below), another 4-9 TWh can be added. Note that figures here refer to TWh wood fuel– not electricity or heat.

After some years with a large demand for wood raw material leading to higher wood prices the financial crisis led to lower demand and the market changed into a situation with oversupply and lower prices.

The risk for even higher Russian export taxes has increased the wood price on the entire market which has sharpened the financial situation for the industry. This has led to decisions on mill closures.

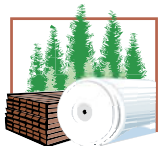
The Swedish Forest Agency has launched Forest Impact Analysis, presenting the result of four different scenarios comparing forest policies for increased growth with policies for higher biodiversity considerations. The analysis shows that the annual harvest in the Swedish forests can continue on the same high level as the recent years for 3 decades and then increase.

The Swedish Forest Industries Federation has launched a climate campaign, focusing on the remedial effect of the growing forests to climate change and promoting the use of more wooden products

Sustainable transportation will become one of the main challenges for society and for sectors such as the pulp& paper industry. The priority to improve sustainability records is growing. The Board of the Swedish Forest Industry Federation has agreed on common sustainability goals and submitted them to the Swedish Minister of Environment. The goal was set that by 2020 the forest industry shall have reduced its emissions of fossil CO<sub>2</sub> from transportation by 20 per cent.

### **Most important business developments: economic situation, legal developments, investments**

In the 4th quarter of 2008, the financial crises hit the real economy quite severely through decreased demand and decreased production. This resulted in a fall in exports of seven percent in the fourth quarter, while they increased by five percent year-on-year 2008/2007. Also, in the fourth quarter GDP fell by 4,9 percent, resulting in an annual drop of 0,2 percent 2008 over 2007. The number of people given notice increased sharply as the labour market weakened. The inflation rate declined towards the end of 2008, consumer price index in December was 0,9 percent annual rate, while for year-on-year 2008 over 2007 the CPI was 3,4 percent.



In 2008, Swedish paper production fell by 2 percent to 11,7 million tonnes. Some of the decline was due to mills being closed down. Exports fell by 2,4 percent and amounted to 10,1 million tonnes. Market pulp production declined marginally at 4,1 million tonnes, while exports fell by three percent to 3,4 million tonnes.

Pulp and paper production and exports have declined sharply in January- February 2009 compared with corresponding period 2008.

Companies continue efficiency and cost reduction programs. During 2008, several announcements of personnel reductions were made, affecting over 1600 jobs (of 25 000 in the pulp and paper industry). Stora Enso closed its Norrsundet pulp mill (300 000 tonnes bleached sulphate), and Rottneros its Utansjö mill (160 000 tonnes CTMP pulp) during the year. Holmen shut down one paper machine at the Hallsta mill (110 000 tonnes mechanical printing paper) and the Wargön mill (145 000 tonnes mechanical printing paper). Arctic Paper has closed its Häfreström mill (160 000 tonnes fine paper) in 2009. Increased raw material and energy costs are major reasons.

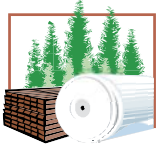
Investments in the pulp and paper industry were 667 million euros in 2008, and are projected to 592 million euros in 2009 (same exchange rate both years). Investment plans mainly concern energy efficiency programs or energy generation.

In March this year, the Government presented a Bill on Energy and Climate. The Government proposes to change the policy on nuclear power. Hitherto the policy has been to phase out the 10 nuclear reactors when new electricity production based on renewable fuels is at hand. The proposal is that it shall be possible to replace the existing reactors by new ones at the same sites. Upgrading of the production capacity in the existing reactors as well as building of new reactors will be examined according to Swedish Environmental Law. No subsidies will be granted by the State.

Among other proposals are:

- The objective of the electricity certificate system is to increase the production of renewable electricity with 25 TWh in 2020. The existing target is 17 TWh by year 2016 compared to year 2002.
- Wind power should be planned to produce 30 TWh in 2020.
- Renewable energy shall be 50% of total supplied energy.
- Renewable energy shall be 10 % in the transport sector 2020.
- Emissions of greenhouse gases in the non trading sector shall be reduced by 40 % 2020.
- Supplied energy related to GDP shall be reduced by 20 % 2020 compared to 2008.
- Taxes on carbon dioxide and energy are proposed to increase as from 2011.
- The second step to reduce the carbon dioxide tax in the trading sector to reach EU minimum level planned for 2010 is proposed to be postponed till 2011.
- The Government also likes to promote sinks in the forests and in forest products. To cease deforestation is another important task according to the Bill.

Swedish commitments on reduction of emissions of nutrients to the Baltic Sea will be costly for the industry. Implementation of the Water Framework Directive is stricter in the Swedish legislation than in other European states.



Development of criteria for green public procurement of wood-based products: also social aspects might be included which is not the case for competitive materials.

## **Socio-economic contribution of the forest industry**

Please refer to the presentation at the ACPWP session in June 2006: Contribution of the paper and forest products industry to employment and income generation – the Swedish perspective.

The close-down of mills affect severely the rural area where the mill was located.

New figures show that the indirect employment generated by the pulp and paper industry increased between 2000 and 2005 (based on input/output matrixes for those years, which are the latest available). This could be an indication that companies concentrate even more on core activities and procure more goods and services from suppliers.