

Assocarta response to the public consultation on the revised Climate, Energy and Environmental Aid Guidelines

Assocarta, the Association of Italian Paper Industry, welcomes the possibility to comment on the proposed “Guidelines on State aid for climate, environmental protection and energy 2022”.

The new Guidelines can provide regulatory stability which facilitates the industry’s investments in low-carbon technologies, but, at the same time, must grant the competitiveness of the industrial sectors keeping low carbon production within EU.

Renewable sources are a key element to reach 2050 goals, but we have to consider that the use of natural gas in high efficient way is the only way to remain competitive at least till when new technologies and new renewable sources will be widely available. Keeping high efficient uses of natural gas (like cogeneration) means that, when low carbon gases or decarbonized gases will be available, we can use them in the most efficient way; low use – high environmental performance.

Italian paper industry is an early-movers in low-carbon investments, focusing on energy efficiency, use of low carbon fuels (natural gas) and renewable energy solutions.

Assocarta gathers 119 pulp, paper and board producing companies. Italian paper sector is the third EU paper producer after Germany and Sweden. State aid rules are very important to incentivise the deployment of solutions that are not yet cost-effective but at the same time to keep industry competitive in this transitional period.

1) Chapter: Aid for the reduction and removal of greenhouse gas emissions including through support for renewable energy

The current draft Guidelines can hinder the industry's investments in energy efficiency and CHP. The Italian pulp and paper industry is one of the largest "prosumers" in Europe, with about three quarters of the consumed electricity being produced on-site via highly efficient cogeneration (CHP).

The current wording of Point 107 makes it impossible for the industry to predict the return on investment in energy efficiency. Increasing volumes of renewable production curtailment would result in less support to on-site cogeneration (CHP) and weakening the business case for this energy-efficient technology without any real benefit for renewable electricity deployment.

This on-site cogeneration brings energy savings for the energy system as a whole. It serves to meet the heat demand of our industry, while electricity is a by-product. It does not intend to displace renewable electricity generation. In our sector, companies use CHP to produce steam when they cannot electrify the mills, often because it is not economically viable, but also because the electric grid is unable to meet their electricity needs. Consequently, not supporting on-site CHP will increase renewable electricity penetration from solar or wind as long as heat is needed.

Assocarta recommendation:

Point 107: Removing the following words "For example, where cogeneration based on non-renewable sources is supported, or where biomass is supported, they must not receive incentives to generate electricity or heat at times when this would mean zero air pollution renewable energy sources would be curtailed."

2) Chapter: Aid in the form of reductions from electricity levies for energy-intensive users

The changes to the list of eligible sectors, namely the removal of NACE 17.22, create challenges for integrated paper mills. For historical reasons, some integrated mills still report under 17.22, but the most relevant activity related to energy consumption, value creation as well as jobs is 17.12.

Eligibility determined only on the final activity (17.22) rather than on the predominant energy activity would distort competition between integrated and non-integrated plants, penalising those who carry out two consecutive activities on a single production site (17.12 + 17.22) and forcing companies to introduce corporate structure changes for the sole purpose of separating the two activities.

Therefore, the eligibility for the aid should be based on an actual activity carried out on a site, not based on the reporting to the statistics office or the final product manufactured by a sector. In such cases of integrated production, all power and products from a site should be taken into account also for the calculation of the GVA.

Assocarta recommendation:

Point 357: The eligibility for the aid should be based on an actual activity carried out on a site, not based on the reporting to the statistics office or the final product manufactured by a sector.

Again on point 357, the actual draft of new guidelines increases the trade intensive parameter from 10% to 20% and foresees only one equivalent situation: energy intensity at least 7% and trade intensity at least 80%.

In the guidelines in force, there is also another case that is considered at risk of relocation: energy intensity 20% and trade intensity 4%. This second case is completely disappeared in the new draft but the case

already exists. We are unable to understand why this second case was completely removed.

Assocarta recommendation:

Point 357: restore, in the cases where relocation of production out of EU is possible, the case where energy intensity is at least 20% and trade intensity at least 4%.

Levies have increased since the introduction of the last Guidelines. Therefore, the proposed increase of percentages relative to levies or relative to GVA seems not reasonable. The draft Guidelines may prove counterproductive to the investments in electrification technologies.

A higher level of industrial electrification could be ensured by maintaining the current provisions for ensuring that the aid is proportionate. It is worth noting that current levels of levies and taxes and CO₂ price as an upcharge in the commodity price are the main obstacle for further use of electricity in those applications in energy-intensive industries that are potentially electrifiable.

Assocarta recommendation:

Point 359: The aid is considered to be proportionate if the aid beneficiaries pay at least 15% of the additional costs without reduction.

Point 360: The Member State may limit the additional costs resulting from the electricity levies to 0.5% of the gross value added (GVA) of the undertaking concerned.

Assocarta believes that the beneficiary's obligation to "conduct an energy audit within the meaning of Article 8 of Directive 2012/27/EU. [That] can be conducted either as a stand-alone energy audit or within the framework of a certified Energy Management System or Environmental Management System" is sufficient to ensure that the aid is granted to projects with clear potential for carbon savings.

According to the Energy Efficiency Directive, energy audits are already supposed to facilitate energy savings. They are to draw a reliable picture of overall energy performance and the reliable identification of the most significant opportunities for improvement.

By removing additional conditions, gather flexibility for the industry to invest in a variety of site-specific innovative technologies to reduce carbon emissions is ensured. The unnecessary administrative burden can also be avoided.

It needs to be considered that companies would potentially need to conduct detailed assessments of specific types of state aid granted and which of the company's investments were made explicitly to fulfill the proposed requirements.

Last, but not least, as the aid is granted in form of a reduction on levies (namely an eligible company does not directly receive any funds), this enterprise cannot invest any share of this amount in any projects.

Assocarta recommendation is to remove point 365 .

It remains unclear why the Commission proposed the thresholds for determining electro-intensity and trade-intensity at the sector level to be changed. The provisions in the current Energy and Environment Aid Guidelines (EEAG) were designed to meet the 2020 targets and were extended to 2022, as seen compatible with 2030 targets. This is why changing the eligibility criteria from at least 4% to 20% trade intensity at Union level and an electro-intensity from at least 20% to 10% at Union level does not seem to build on existing provisions.

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