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

Cepi, the Confederation of European Paper Industry, welcomes the possibility to comment on the proposed "Guidelines on State aid for climate, environmental protection and energy 2022". With the entry into force in January 2022, the Guidelines can provide regulatory stability which facilitates the industry's investments in low-carbon technologies.

The pulp and paper sector is in a key position to support the EU in becoming fit for 2050. Our sector has the potential to drive down greenhouse gas emissions with sustainable energy sources. From 2005, our industry has already made substantial reductions in carbon emissions by 29%, resulting in 24% carbon-intensity reduction. We have been early-movers in low-carbon investments, focusing on energy efficiency and renewable energy solutions. We plan to grow our business in Europe, which is a significant part of the circular economy and the bio-economy.

Cepi gathers, through its 18 member countries, some 500 pulp, paper and board producing companies. Over the past years, our sector has annually invested €5.5 billion in combining competitiveness, sustainability and innovation. And we have a tremendous investment agenda ahead. There is a major task for the industry to become more sustainable and to reduce CO_2 emissions. State aid rules are very important to incentivise the deployment of solutions that are not yet cost-effective.

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

Cepi appreciates that the draft Guidelines aim at supporting emerging carbon-saving technologies and fulfil the actions listed in the new Industrial Strategy. The industry needs access to affordable and reliable energy supply. It is crucial to support the industry in anticipating the fuel switch to carbon-neutral gases and/or electricity until these become cost-competitive. In this context, Cepi accepts:

- The recognition of the importance of contracts for ongoing payments in various forms to support the operating costs of investments in decarbonisation;
- The possibility to grant support for the investments in technologies using natural gas in the transitional period as long as Member States explain how an investment contributes to reaching emission reduction targets and commits to using renewable or low carbon fuels;
- Broadening of the scope of Guidelines to include support for hydrogen, and other low-carbon gases, and as well as CCS/CCU and resource efficiency.

The system benefits of on-site flexible thermal generation should be properly addressed and incentivised. The current draft Guidelines can hinder the industry's investments in energy efficiency.

The pulp and paper industry is one of the largest "prosumers" in Europe, with about half of the consumed electricity being produced on-site via highly efficient cogeneration (CHP). Our industry is also the leading sector in the use of renewables in industrial heating. Biomass, coming from side-streams of our activities, accounts for about 60% of our fuel mix.

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. CHP can run on a variety of fuels, including renewable energy sources. 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 not increase renewable electricity penetration from solar or wind as long as efficient heat is needed.

Cepi 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 for the security of electricity supply

Cepi is pleased that the aid measures aimed at increasing the security of the electricity supply can be supported. For facilitating the system electrification, the capacity mechanisms and interruptibility schemes for dealing with long and short-term security of supply are important.

However, it needs to be ensured that the industrial on-site electricity generation from renewable energy sources such as biomass or renewable gases which voluntarily provides flexibility to the grid can be eligible for aid.

Cepi recommendation:

Point 318: Change the wording from "that would displace less polluting forms of energy" to "based on non-renewable sources when delivered to the grid".

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

Granting a reduction of energy charges for Energy Intensive Users (EIUs), such as the pulp and paper industry, was instrumental in safeguarding growth and jobs in Europe, both within our sector and across our value chain. Our sector has contributed to creating the conditions for higher societal acceptability of more ambitious renewable policies. All the while levies have been increased substantially across the European Union in recent years.

Where possible, it is important to remove differences of interpretation of the Guidelines between Member States to ensure harmonised implementation. To this end, it is recommendable to clarify that all power on which levy is imposed and that is used on-site should be eligible for the aid, even if other legal entities use it for the benefit of an industrial plant. In addition, the Commission should not consider a minimum level of costs per MWh of the concerned levies in absolute terms. A minimum level would not be advisable as the beneficiaries' contribution is expressed in relative terms.

Cepi recommendation:

New point: The Commission considers that Member States may grant reductions to levies based on overall power consumption on-site, even if other legal entities use it for the benefit of an industrial plant

Point 356: Remove the minimum cumulative level per MWh of the concerned levies

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.

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.

Cepi 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.

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 CO_2 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.

Cepi 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.

Cepi 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 entreprise cannot invest any share of this amount in any projects.

Cepi 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.

In practice, the impact of the upcoming proposals for the EU ETS and the introduction of the Carbon Border Adjustment Mechanism (CBAM) on the industry needs to be taken into account.

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