

TRD/019c/05

## European Commission's Action Plan regarding state aid reform 2005-2009

### The European paper industry supports the general direction of the Action Plan but draws European Commission's attention on several issues and asks for regular consultation

#### POSITION PAPER

On 7 June 2005, the European Commission published an Action Plan: the 'Roadmap for State Aid reform 2005-2009'. This Action Plan sets out what the Commission will be looking at over the next 5 years. It considers that there is a real need for a comprehensive reform of state aid policy in order that the state aid rules may better contribute to the Lisbon Strategy and sustainable growth, competitiveness, social and regional cohesion, environmental protection and cultural diversity in the context of an enlarged European Union.

The European pulp & paper industry welcomed this Action Plan in an attempt to further contribute to the Lisbon Strategy and the improvement of the competitiveness status of the European Union as a place for companies to invest, develop profitability and employment in a sustainable way. The European pulp & paper industry is a capital intensive industry that despite a not so favourable environment has so far remained competitive and has improved its environmental records over the years by reducing significantly its footprint and increasing recycling so that it believes that it can be considered as one of the truly sustainable industry sectors in the long-term.

The European pulp & paper industry welcomes the target of having less and better targeted state aid, a refined economic approach including an economic assessment and analysis of the appropriateness and proportionality of aid granted, more streamlined and efficient procedures, better enforcement, higher predictability and enhanced transparency.

It believes that there is indeed a need to adapt the state aid rules to ensure better governance and effective and transparent control in the enlarged European Union through simplification and consolidation. However, it remains essential that state aid do not distort competition between and within the industry sectors and be detrimental to the internal market functioning. It is essential that the potential impact of the state aid programmes decided in a specific country is assessed at European level and not only in the country concerned. In this respect, the possible increase of the number of aids further to the extension of block exemption for notification - fewer aid measures will need to be notified to the Commission - and the potential increase of the 'de minimis' aid thresholds could be damageable if there is no transparency and adequate and proportionate control of their potential effect on competition and trade Europe wide between and within industry sectors on a European basis.

The reduction in the overall levels of state aid granted and its redeployment to support some horizontal objectives such as R&D, innovation, training and transport, energy and communication infrastructure and to stimulate eco-efficiency is going into the right direction and would be beneficial to the companies established in Europe that often have to compete with companies established in countries with much lower raw material and labour costs. The European

Commission should also ensure that the companies established in the EU are not suffering from a competitive disadvantage vis-à-vis their competitors located outside the EU who are less or even not at all affected by R&D subsidies control. In other words, a global playing field should be established in the area of state aid.

Particular efforts on R&D and innovation programmes have to be supported in order to contribute to the short to long-term competitiveness of the industries and the companies.

Regarding energy and in a context of high energy prices, eco-efficiency constitutes a priority for the paper companies. Promotion and research in the eco-efficiency area and cogeneration should be considered as a top priority indeed. At the same time, the paper industry is concerned about the promotion of renewable energy sources, particularly in the form of subsidies to the functioning of the plants. These subsidies can create heavy artificial distortions on the wood markets and threaten the future availability of wood, which is the primary source of raw material for paper manufacturing. The impact of such promotion measures and the market distortion it has created has been already observed in some European countries and could have been avoided with a proper impact assessment analysis.

A regular consultation of all the stakeholders along with the reshaping process of the EU state aid policy is essential. The European pulp & paper industry will further contribute to the reflection on the European state aid policy reform in the coming months and years and will remain vigilant when it affects areas of particular importance for its competitiveness.

September 2005

**The European pulp and paper industry key figures:**

- It is composed of 850 companies and 1,250 mills
- It has a turnover of 74 billion Euro
- It employs some 275,000 people directly and the forest-based industries cluster employs some 3,5 million people
- It produces some 100 million tonnes of paper and 45 million tonnes of pulp
- It represents 29% of the world production
- Some 54% of the paper and board consumed is recycled
- It exports 15 million tonnes of paper, around 15% of its production