

Swedish Forest Industries Federation answer to Public Consultation for the Revision of the Guidelines on State aid for Environmental protection and Energy 2014-2020 (EEAG)

The Swedish Forest Industries Federation represents companies that use forests to provide the raw materials for their products and services. This includes producers of pulp, paper, cardboard, packaging and biofuel. Similarly, sawmills producing all sorts of boards, planks, roof trusses and other prefabricated construction elements are also included.

The paper and pulp industry is energy intense and supply of electricity to a competitive cost is essential for the competitiveness of the Swedish forest industry. We fully support the objectives of the European Green Deal and we are strongly supporting the goal of reaching net zero greenhouse gas emissions by 2050.

Our industry is characterized by investments that long for decades, why retroactive rules must be avoided as this would undermine the system as a whole.

We welcome the possibility to respond to the Public Consultation for the Revision of the Guidelines on State aid for Environmental protection and Energy 2014-2020 (EEAG). Our response focusses on five main areas:

1. Preservation of regulatory stability and predictability
2. Reduction of energy charges for Energy Intensive Users (EIUs)
3. Integration of new elements in the EEAG review
4. Simplification of rules for exemptions from harmonised environmental taxes: the case of the Energy Taxation Directive
5. Acceleration of procedures for state aid approval

Swedish Forest Industries Federation key messages for the EEAG review:

1. Preservation of regulatory stability and predictability

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.

Given the very short timeline to deploy investments to meet the 2030 targets, it is important for the EEAG review to build on existing provisions, complementing them with additional elements deemed necessary to meet more ambitious 2030 targets.

2. Reduction of energy charges for Energy Intensive Users (EIUs)

The inception impact assessment states:

"The Fitness Check has shown that it is unclear, whether the existence of reductions for Energy Intensive Users has led to the introduction of more ambitious renewables policies by all Member States. The effectiveness of those reductions seems to vary depending on the proportion of the RES charge over the electricity bill for Energy Intensive Users in the various Member States."

It is important to stress that reductions for EIUs is not, in itself, a tool designed to promote renewable energies. If that was the purpose of the inquiry, it comes as no surprise that the outcome of the Fitness Check is inconclusive.

The Fitness Check should have addressed the following questions: what would have been the economic and social impact, should EIUs not have received reductions of energy charges? Would EIUs still be able to compete, both at EU and international level? Had this not been the case, would the economic and social implications have had an impact on introducing more ambitious policies in support of renewable energy sources?

From our perspective, granting 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. And, by doing so, we have contributed in creating the conditions for a higher societal acceptability of more ambitious renewable policies.

3. Integration of new elements in the EEAG review

Meeting a more ambitious 2030 target requires the current EEAG to be complemented with additional provisions, to meet new challenges and new technological and policy developments. In particular support for phase-out of direct combustion of fossil fuels

Alternatives to fossil fuels, such as carbon-neutral gases and/or electricity tend to be more expensive. This places energy intensive industries, such as pulp and paper, in a “catch-22 situation”: should they shift to carbon-neutral fuels, they would be uncompetitive, thus close down.

Should they wait for the time such alternatives will become cost-competitive, they would face progressively growing energy/carbon costs making them internationally uncompetitive, thus closing down.

It would be crucial to support industry in anticipating the fuel switch to carbon-neutral gases and/or electricity, until these become cost-competitive.

This approach would result in a win-win for both society and the environment. It would avoid the release of additional carbon emissions in the atmosphere while preserving growth and jobs in Europe.

At the same time, support should be provided to scale down the production costs of hydrogen, with particular focus on electrolyzers.

Moreover, specifically on electrification: it should be noted 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 energy-intensive industries.

4. Simplification of rules for exemptions from harmonised environmental taxes: the case of the Energy Taxation Directive

Under the current EEAG provisions, exemptions from harmonised environmental taxes are, de facto, treated the same way as exemptions for non-harmonised environmental taxes.

The practical implication of this “equal treatment” is that it is more difficult to apply foreseen exemptions from harmonised taxes, compared to non-harmonised ones. This is because of the difficulties in having to demonstrate the necessity and proportionality of exemptions against EU harmonised taxes.

A striking example is the exemption granted to energy intensive industries under the Energy Taxation Directive (Council Directive 2003/96/EC). Although the exemption is clearly foreseen in the directive, the burden of proof, in terms of necessity and proportionality, has been so cumbersome that, in several cases, governments ultimately decided to abandon such procedure.

It is true that, according to paragraph 172 of the current EEAG, when it comes to the Energy Taxation Directive the Commission can apply a simplified approach. However this possibility hasn't yet translated into a systematic approach leading to a fast procedure leading to a successful application of exemptions, as expressly foreseen in the directive.

5. Acceleration of procedures for state aid approval

The procedures leading to the approval of national aid schemes take a rather long time. Although recently procedures seem to have been faster, they are still too slow, from a business perspective.

With the short time horizon to deploy investments to meet the 2030, it would be important that approval procedures are also finalised within short timeframes.

Continuity in the regulatory framework will certainly help in avoiding unnecessary complications, leading to lengthy approval procedures having a knock-on impact on delays in investment decisions.

Kind regards,

Johan Bruce
Director Energy Policy
Skogsindustrierna
Swedish Forest Industries Federation