

Cepi response to Commission Inception Impact Assessment on the Revision of the Guidelines on State aid for environmental protection and energy 2014-2020 (2014/C 200/01)

CEPI represents the European pulp and paper industry and 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.

From an energy perspective, our sector is in a unique position. We are:

- The 4th largest industrial energy user in Europe;
- The 2nd industrial electricity consumer in Europe;
- One of the largest “prosumer” in Europe, with about half of the electricity consumed being produced on-site via highly-efficient cogeneration (CHP);
- Constantly investing in energy efficiency, with a remarkable decrease of more than 12% in primary energy consumption over the period 2005-2018;
- One of the largest biomass users, accounting for about 60% of our fuel, coming from side-streams of our activities;
- One of the largest biomass producers and suppliers;
- One of the leading sector in use of renewables in industrial heating;
- Competing on international markets, with 22% of our products exported outside Europe;
- Responsible for just 0.7% of EU GHG emissions (31 Mt CO₂ in 2019).

We welcome the possibility to respond to the Inception Impact Assessment on the Revision of the Guidelines on State aid for environmental protection and energy 2014-2020 (2014/C 200/01). 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

Cepi 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.

This reduction should be extended to Gas Intensive Users at least till the decarbonisation process will be completed, to safeguard competitiveness of Europe industries especially for those that have no alternative fuels in the short term. The growing decarbonisation objectives brought (or could brought) the introduction of levies also on natural gas bills that will probably increase in the short term producing extra-costs for gas intensive users.

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:

a. 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.

b. Support for the creation of local biogas communities

Renewable gases are extremely important in fostering the decarbonisation of the gas demand. So far policies to promote biogas production and consumption have been rather erratic.

A more strategic approach is needed. Particularly for what concerns the use of biogas to replace natural gas supply. This should be done in the most cost-efficient way.

Biogas can be relatively cost-competitive with natural gas, if used directly in boilers or combined heat and power generation. It becomes rather expensive if biogas is upgraded to biomethane and then injected in the gas infrastructures.

The most sensible way forward is to centralise biogas production in locations where the direct use of biogas is possible. This would avoid unnecessary costs and strengthen economic value-chains at local level. Moreover, it strengthens the business case for high efficient CHP, thus delivering energy savings for the energy system as a whole.

We need to avoid a situation whereby incentives will be channelled towards a myriad of small biomethane producers, injecting biomethane in the grid, for the biomethane to be consumed next door by a consumer that could have directly use biogas in the first place.

In the current EEAG provisions, support is provided for biogas infrastructures only insofar as they're part of a network of transmission and distribution pipelines. This is rather restrictive and can lead to unnecessary additional CAPEX and OPEX.

A more appropriate way forward would be to explicitly support the creation of local biogas communities, acting as a hub between local biogas producers and consumers.

This approach would be in line also with provisions in the 2030 framework, as it would contribute in implementing both:

- the “efficiency first principle”, as foreseen in the Energy Efficiency Directive (Directive (EU) 2018/2002),
- the creation of renewable energy communities, as foreseen in the Renewable Energies Directive (Directive (EU) 2018/2001)

c. Valorisation of system integration

There seems to be a general consensus around the fact that the electricity sector will decarbonise faster than any other sector, primarily via non-programmable renewable electricity generation, such as solar and wind.

It makes sense to maximise the use of electricity produced by these renewable energy sources, as they produce at zero marginal cost.

This being said, such perspective is only possible insofar as there is sufficient interconnection capacity and there are on-site energy generation facilities enabling the switch from on-site to off-site energy generation. And to do so in the long run, on-site energy generation needs to be fuelled by carbon neutral energy carriers.

Our sector is particularly well suited to provide these services, thanks particularly to energy efficient solution to produce on-site thermal energy, as it is the case for combined heat and power (CHP).

But this perspective is not properly addressed in the current EEAG provisions. The system benefits of on-site flexible thermal generation should be properly addressed and incentivised.

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.