



Position Paper

Placing competitiveness at the heart of the 'Energy Package'

7 March, 2017

CEPI represents the European pulp and paper industry and gathers, through its 18 member countries, some 550 pulp, paper and board producing companies. Over the past years our sector has annually invested €3 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 12% in primary energy consumption over the period 2005-2015;
- 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 21% of our products exported outside Europe;
- Responsible for just 0.7% of EU GHG emissions (32 Mt CO₂ in 2015).

The legislative proposals in the "Clean energy for all Europeans" (the 'Energy Package') come in the background of the recent publication of a European Commission study which demonstrates that direct costs on the industry have tripled and (together with indirect costs) have absorbed over 40% of the industry profitability since 2004.

This 'Package' therefore represents an opportunity for policy-makers to reverse the tide of burdensome regulation and instead put energy regulation back on a cost effective and pro-investment track.

The proposals generally represent a good step in the right direction. However, further improvements are needed, as summarised on page 2 and further explained in the pages following.

CEPI's key messages

Deliverables expected by “Clean energy for all Europeans” package, as a whole:

- Promotion of cost-competitive energy prices
- Consistency between policy measures
- Stability and predictability of the regulatory framework

Deliverables expected by specific legislative proposals:

➤ **Electricity markets**

- Allowing for market-based prices to show real value of electricity
- RES generators should participate in the markets in the same way as all other generators
- Subsidies to RES-E should not be allowed to distort wood supply markets
- Security of electricity supply to energy intensive industry must be secured
- Demand flexibility should be voluntary and rewarded
- The benefits of CHP should be recognised (efficiency, cost effective, energy security, resource efficiency)
- EU should not create more bureaucracy or official bodies / authorities

➤ **Energy Union Governance**

- No to a binding cap on energy consumption impeding industrial growth
- Increased mobilisation of forest biomass is essential in reaching the 2030 renewable energy target
- Need for a real focus on industrial competitiveness
- Reduction of administrative burden for business needs to be prioritised
- Need to avoid/minimise policy conflicts and overlaps

➤ **Energy Efficiency**

- The directive should not set a binding EU cap on energy consumption
- Member States should be allowed to set their own indicative targets
- Costs and potentials varies across Member States: there is no one-size-fits-all energy savings trajectory
- Equal footing between obligation schemes and alternative measures needs to be preserved
- Cogeneration to remain at the core of the Energy Efficiency Directive

➤ **Renewable energy**

- Support schemes should not distort wood markets and should stimulate supply of wood
- Opening up to national schemes to cross-border participation in electricity markets should lead to more market integration, not to harmonised subsidies
- Guarantees of origin should remain as trade description, not to be used as subsidies
- There is no “one size fits all” in heating and cooling: focus should be on flexibility and cost-efficiency
- Emission reduction in transport should cost-efficiently drive renewable energies in transport (RES-T) integration into the market while not resulting in transportation costs increased
- Our industry is an emerging producer of RES-T solutions mainly from wastes and residues, such as advanced biofuels, biogas, excess electricity from bio-based pulp and paper mills...
- Bureaucracy and costs should be avoided when implementing sustainability criteria

New Electricity Market Design

Key is to deliver cost-competitive electricity prices

Measures aimed at strengthening short-term electricity markets are welcomed and a necessary step towards a functioning and cost-effective market. Market fragmentation leads to sub-optimal solutions, resulting in higher electricity prices.

In this respect, CEPI welcomes the focus in the legislative proposals on:

- Increasing cross-border trading over short timeframes in both intraday and balancing markets;
- Rewarding flexibility for generation and demand-response;
- Allowing for market-based prices to show real value of electricity (no regulatory intervention fixing price caps or floors): this should provide the appropriate incentive for investments to take place where they would be most cost-effective.
- Capacity mechanisms being used as a last resort only, and should be cost-efficient: they should not result in undue subsidies to electricity generators.

1. Integration of renewable energies in the market

CEPI welcomes the move towards creating a level-playing field among energy sources. RES generators should be required to participate into the markets the same way that all the other generators, meaning being fully responsible for their balancing power and associated cost. Full internalisation of all costs by all the technologies (both conventional and RES) is also a prerequisite for a fully functional market.

Depending on market design, subsidies to electricity produced from renewable energy sources risk distorting market price formation. Electrical generation from biomass should focus on the use of forest residues and forest industry residues to avoid increasing pressure on wood supply for more value-creating end-products.

2. Demand-side flexibility

Our industry has invested heavily in its production units and has customer deliveries to fulfil. Therefore, the decision on possible demand-side flexibility should always remain voluntary.

We welcome legislative provisions to allow industry to participate on an equal footing in accessing the flexibility mechanisms the market provides.

In order to harness the potential from industrial demand response, regulatory barriers for industry to participate with market-based flexibility services should be removed. At the same time, current advantages from on-site generation should be acknowledged and maintained, in order to keep baseload industrial demand off the grid and to save investments in distribution by decentralised production.

Regulation should ensure and facilitate that industry contributes in both demand-response flexibility and on-site generation.

Industrial demand response should also be compatible with energy efficiency targets. A balance needs to be found between demand-side flexibility, delivering system efficiency improvements, and assessment of energy efficiency at installation level, which will be negatively impacted by variation of on-site energy generation levels.

3. High-efficient Combined Heat and Power (CHP)

CHP is a key technology that plays a pivotal role in promoting efficient energy generation and reducing carbon emissions. Moreover, CHP used in the pulp and paper industry is particularly suitable to deliver cost-effective flexibility solutions to integrate electricity from non-programmable renewable energy sources. It is therefore essential that the benefits of CHP are reflected in European and national regulation, and that investments in this technology are preserved and encouraged.

In this respect:

1. Curtailment or re-dispatching of electricity from high efficient CHP from industrial processes should be kept to the minimum.
2. For investment security, priority dispatching of electricity from existing high efficient CHP should be ensured also when significant modifications take place, as long as they continue operating as high efficient CHP.
3. Tariffs should avoid directly or indirectly punishing highly-efficient energy generation installations, such as CHP.

It is also worth noting that the Guidelines on State aid for environmental protection and energy 2014-2020 (2014/C 200/01) are negatively impacting self-consumption. This is because section 3.7.2 requires installations to contribute to the funding of support for energy from renewable sources for all electricity consumed, therefore for the electricity self-produced and self-consumed as well. This acts as a disincentive for self-consumption, as it reduces the economic incentive for this type of investments, such as combined heat and power (CHP).

4. Powers delegated to ACER (Agency for the Cooperation of Energy Regulations)

CEPI supports convergence of national regulations, but has serious concerns on strengthening ACER's role, if these questions remain unaddressed:

- How to avoid creating additional regulatory layers?
- How to create more transparency on the way ACER operates?
- How to avoid that "technical" decisions are been politically driven?
- How to ensure that there is a legal basis to challenge ACER decisions?
- How to ensure that energy-users perspective is adequately represented?

Moreover, CEPI is concerned with the delegation of powers to ACER, with no real boundaries or guidelines.

Regulation on Energy Union Governance

Industrial competitiveness still largely unaddressed

The regulation sets the 2030 targets on energy efficiency and renewable energies and defines a methodology for meeting them at national level.

On the positive side, Member States will have to develop short to medium-term Integrated National Energy and Climate plans. Such an approach is welcomed, as it has the potential to deliver more coherence among multiple and often overlapping policy measures. In addition, it has the potentials to deliver a more stable long-term policy framework.

Against this backdrop, CEPI has the following main reservations:

1. No to a binding cap on energy consumption impeding industrial growth

The Commission proposal requires the EU to remain within absolute primary and final energy consumption targets (art. 6). These targets are based on a pre-determined scenario and are not subject to change, reflecting economic developments.

As a consequence, a growth in activity levels in industrial production could be halted, should the EU reach the pre-defined cap. Under this scenario, investments in European manufacturing industries will be impacted.

Energy efficiency is not about capping energy consumption. It is about improving effectiveness of energy use for local and global needs as a mean to reduce carbon emission, improve competitiveness and security of supply.

2. Increased mobilisation of forest biomass essential in reaching 2030 renewable energy target

Our industry continuously strives to produce more renewable products, which contribute to decarbonisation as carbon stocks and by substituting fossil-based alternatives. Increased production of these end-products results in a need for increased throughput of biomass in our value chains. This will in turn make higher amounts of forest residues and forest industry residues available for the bioenergy market. In other words, to stimulate the supply of wood for the forest industries and to increase the overall mobilisation of forest biomass will be essential in EU28 reaching its 2030 renewable energy target.

3. Need for a real focus on industrial competitiveness

In the integrated climate and energy plans, Member States are toned to also report on competitiveness. However, there is nothing about competitiveness in the list of “policies and measures”, nor in the “impact assessment of planned policies and measures”. Without any indicator, how can Europe seriously assess and support industrial competitiveness?

4. Reduction of administrative burden for business needs to be prioritised

The proposed reporting methodology seems administratively burdensome and lacks a clear assessment on how this would impact business. The current levels of administration in implementing the climate and energy packages are already quite burdensome for industries. The priority should be to minimise red tape for industry.

5. Policy conflicts and overlaps

The targets for GHG emissions, energy efficiency and renewables, interact with each other and may cause contradictions. In particular:

- Electricity market design: a balance needs to be found between demand-side flexibility, delivering system efficiency improvements, and assessment of energy efficiency at installation level, which will be negatively impacted by variation of on-site energy generation levels.
- Renewable energy: use of sustainable biomass is penalised in energy efficiency calculations, even if it increases the share of renewable energies and reduce carbon emissions.
- Emission Trading Scheme (ETS): the ETS already acts as an additional incentive, next to international competition, to foster energy efficiency. Installations under the ETS should therefore be excluded from bearing the costs of energy savings obligation schemes.
- Effort sharing and LULUCF: LULUCF policies need to promote active forestry and better forest growth. This would not only help responding to renewable energy pull, but have also beneficial impacts when increasing carbon stocks in forests and products

Review of the Energy Efficiency Directive

Need to avoid capping energy consumption / industrial productivity

Energy efficiency is at the core of the pulp and paper industry. With energy being the second largest cost after raw materials, energy efficiency improvements make the difference between a paper mill remaining competitive or going out of business.

As the pulp and paper industry, we are also investing in new products and business models, as we see opportunities for growing in Europe and to export our products outside Europe. We produce goods for local and global needs. More energy effective production in Europe for global needs is good for the climate. If our production is capped, then these products are simply produced outside the EU.

With this in mind, the proposed review raises the following concerns:

1. Energy efficiency targets (art. 3)

The Commission proposal requires the EU to remain within absolute primary and final energy consumption targets (art. 3, para. 4). These targets are based on a pre-determined scenario and are not subject to change, reflecting economic developments.

As a consequence, a growth in activity levels in industrial production could be halted, should the EU reach the pre-defined cap, hampering investment in manufacturing industries.

Energy efficiency is not about capping energy consumption. It is about improving energy intensity as a mean to reduce carbon emissions, improve competitiveness and security of supply.

This being said, we strongly support the flexibility given to Member States in setting their own national indicative targets, and the means of achieving them.

2. Annual energy savings (arts. 7 and 7a)

CEPI has strong reservations on the application of a flat rate, equally applied in all Member States:

- Costs and potentials for energy savings varies across Member States;
- Once the “low hanging fruits” have been harvested, additional energy savings will become more difficult and expensive;
- Compliance with legislation will not count towards the savings obligations. For intensive energy consumers using Best Available Technologies (BAT) and matured technologies, the remaining potential to economically improve energy efficiency is quite small and costly.

CEPI strongly supports the equal footing between energy efficiency obligations schemes and alternative policy measures as means for Member States to achieve energy savings.

3. Cogeneration to remain at the core of the Energy Efficiency Directive

Combined Heat and Power (CHP) is a technology designed to improve energy efficiency, both at installation and at energy system level. With the proposed changes, the role of CHP will be only assessed from an electricity generation perspective, with all other energy efficiency benefits being largely disregarded.

Review of the Renewable Energies Directive

Sustainability and market integration to be at the core of the new policy framework

The current Renewable Energies Directive (RED) has been successful in deploying large volumes of renewable energy sources. However, the costs directly and indirectly associated to such deployment in most Member States have been quite significant. The energy prices gap with competing economies has widened, with policy-induced costs being particularly relevant in electricity prices.

The RED has focused on the demand for bioenergy, but not sufficiently exploited the possibilities provided by wood processing industries. Stimulating the supply of wood promotes growth of the pulp, packaging and paper industries and broader uptake of the bioeconomy. This would also increase the amount of renewable energy in an economic way.

This being said, we positively look at the RED revisions, so-called RED II. Nevertheless, some caution is still required, particularly on the following aspects:

1. Support schemes for renewable energies

Depending on market design, subsidies to renewable energy risk distorting market price formation. Support schemes for renewable energy from forest biomass should stimulate the supply of wood and focused on the use of forest residues and forest industry residues to avoid increasing pressure on wood supply for more value-creating end-products.

2. Renewable electricity (RES-E)

Our industry is a large and growing producer of RES-E. CEPI welcomes the move towards creating a level-playing field among electricity sources.

RES-E generators should be required to participate in markets in the same way that all the other generators, meaning being fully responsible for their balancing power and associated cost. Full internalisation of all costs by all the technologies (both conventional and RES) is also a prerequisite for a fully functional market.

The renewable electricity producers should be allowed to invest in generation in another Member State and be eligible to apply for support schemes in that Member State, on a non-discriminatory basis of. This financial support scheme should however depend on the possibility for electricity to be produced in one member state and physically exported to the other.

In any case, such cross-border participation needs to lead to integration of renewables in the market. It should not lead to any sort of harmonised support scheme mechanisms across Europe.

3. Guarantees of Origin

The extension of Guarantees of Origins to all renewable energy sources risks creating a large and heavy administrative system to manage, for both governments and industry.

Furthermore, any of such system should be used for the sole purpose of statistical trade. It should under no circumstances be used as a tool to subsidise energy generation.

4. Renewable heat and cooling (RES-H&C)

Our industry is a large producer of RES-H&C for use in our own industrial processes, but we also sell forest biomass and waste heat to external producers of RES-H&C.

While CEPI generally supports increased use of RES-H&C, we are critical of the provision that *all* Member States shall endeavour to increase its share of RES-H&C by 1 %-unit/a, since the starting point and potentials to increase vary widely between Member States.

There is no “one size fits all” solution and instead, flexibility for Member States in setting national contributions to the EU target and cost effectiveness must be prioritised.

CEPI supports that Member States shall lay down necessary measures to ensure non-discriminatory access to district H&C systems for heat and cold produced from RES and for waste heat and cold. CEPI further supports that Member States shall increase its use of waste heat and cold.

5. Renewables in transport (RES-T)

Decarbonisation of, and promotion of renewables in, the transport sector will be more cost-effective if the total energy demand in transport is reduced.

This being said, our industry is an emerging producer of RES-T solutions mainly from wastes and residues from forestry and forest industries, such as advanced biofuels, biogas, excess electricity from bio-based pulp and paper mills... This is part of our overarching support and promotion of the development of bioeconomy. In this respect, our sector is able to offer solutions to mitigate climate change both through our existing and new products.

However, raw materials that can be used for RES-T are not available in unrestricted amounts. The overarching aim should therefore be to enlarge the bioeconomy and ensure enough biomass supply is available.

Further, any policy instrument to support RES-T should:

- a. Not result in transportation costs increased for large logistical buyers like our sector, as this would negatively impact our global competitiveness;
- b. Ensure regulatory predictability and stability;
- c. Cost-efficiently drive RES-T integration into the market.

6. Need for a sustainable biomass policy

Sustainably managed and used forest biomass is pivotal in building a strong bioeconomy and in meeting the EU targets on both renewable energies and climate change.

Forest biomass is the link between low-carbon, bio-based and circular economy, as renewable raw material wood is processed to existing and new bio-products. By promoting increased mobilisation of biomass resources throughout the whole value-chain and from more active forest management, the bioeconomy and its climate change mitigation potential can be maximised. It would also promote increased use of bioenergy from residue materials.

The European pulp and paper industry has been committed to sourcing wood from sustainably-managed forests and has been actively involved in developing measures to guarantee sustainability of its wood supply for decades. To ensure the sustainability of the policy-induced increase of bioenergy use and wood imports for bioenergy purposes, challenges related to resource depletion, land conversion and inefficient use of raw material should be considered.

Therefore CEPI welcomes that:

- The Commission proposal includes criteria related to carbon, forest management and conversion efficiency;
- Appropriate existing legislation at national level is firstly to be used to show compliance with the sustainability criteria and only if such systems are not available, the local level and management systems are considered;
- The burden of proof is on the operator, i.e. the energy producer;
- The principle of carbon neutrality of biomass is maintained, as the emissions from the use of bioenergy are accounted for in the LULUCF sector;
- The GHG savings criteria is included;
- The inefficient conversion of biomass for electricity without CHP is no longer supported.

CEPI furthermore welcomes that the Commission proposes separate sets of sustainability criteria for agricultural and forest biomass respectively, as this acknowledges the different conditions under which the biomass is produced. Furthermore, CEPI welcomes that the criteria are applied equivalently based on the type of biomass used and independently on which physical form (solid, gaseous or liquid) of the biofuels, bioliquids or biomass fuels produced.

However the proposal also contains provisions that require further discussion and clarification, such as definitions, thresholds, endorsement and administrative burden of verification schemes, impact on the internal market of national measurers going beyond proposed criteria.

These aspects will be addressed in more details in a separate paper specifically focused on biomass sustainability criteria.