

'Fit for 55' package: how to unleash the European pulp and paper industry's decarbonisation potential?

Position paper

Cepi represents the European pulp and paper industry and gathers, through its 18 member countries, some 895 pulp, paper and board mills across Europe directly, employing more than 180,000 people. Our sector is investing at a rate of more than €5 billion per annum, increasing our production volumes while simultaneously reducing our carbon footprint.

The European pulp and paper industry fully supports the EU objective to reach climate neutrality by 2050. We have already achieved a 29% reduction of carbon emissions from 2005 to date, making our sector's direct emissions accountable for less than 0.7% of total EU GHG emissions: a leading performance amongst industrial sectors! By constantly investing in energy efficiency, our sector has achieved a remarkable decrease of over 12% in primary energy consumption over the period 2005-2018. At the same time, European forests remove 10% of Europe's total CO₂ emissions.

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

- The fourth largest industrial user of energy and the second industrial electricity consumer in Europe
- The largest biomass industrial user, accounting for more than 60% of our fuel, coming from side streams of our activities
- One of the leading sectors in using renewables in industrial heating
- One of the largest "prosumers" in Europe, with about half of the electricity consumed being produced on-site via highly efficient cogeneration (CHP)
- One of the large providers of industrial waste heat for public grids

Our industry is up to the climate challenge. We provide an ever-increasing range of solutions for today's and tomorrow's needs of our customers, other industries, and society at large. Our renewable and recycled wood-based fibre solutions are made in Europe from predominantly European sustainably growing forests and recycled in Europe. Building on our position as world champions in recycling, we are set to increase recycling even further to boost the circular economy.

Wood based products store CO₂ and substitute fossil-based and fossil-intensive materials and energy. Forests and forest-based products remove a net of 806 million tons of carbon dioxide equivalents annually¹. This corresponds to 20% of all fossil emissions in the European Union! To continue doing so, the political support will be critical.

The 'Fit for 55' package represents an opportunity for policymakers to support measures enabling our sector to contribute – with decarbonised production, product substitution and sustainable forest management – to reaching the 2030 and 2050 goals. **This position outlines the European paper industry's stance on key aspects of the package. We expect the proposals to promote:**

1. Stable, predictable and effective protection for our sector

A new strategy for industry that brings together competitiveness and the reduction of CO₂ could lead the way towards carbon-neutral and circular production in Europe. The review of the EU ETS Directive

¹ Climate effects of the forest-based sector in the European Union (2020) FutureVistas AB

must use the opportunity to retain the regulatory stability as agreed for Phase 4 of the EU ETS. It is also crucial to maintain a stable approach to sustainability criteria for forest biomass respecting the Member States' competence on forest management. This policy predictability for the frontrunners of the European industrial energy transition can unleash the European pulp and paper industry's decarbonisation potential. The co-legislators can achieve this goal by:

- Promoting the frontrunners of the European industrial energy transition
- Maintaining policy stability for a carbon-neutral production in Europe
- Providing effective carbon leakage protection
- Ensuring that all sectors of the European economy contribute to the more ambitious 2030 emission reduction target
- Recognising that a CBAM is not a universal tool to safeguard all EU ETS sectors against carbon leakage

2. Access to affordable climate-neutral energy sources for energy-intensive industries

Rising energy prices, be it through CO₂ pricing or fuel switch, jeopardise production and paper recycling in Europe. The "Fit for 55" package must ensure that the European pulp and paper industry stays competitive in the global market by providing access to affordable low-carbon energy sources such as renewable electricity, biogas, hydrogen or nuclear power. By amending the 2030 climate and energy policy framework, the co-legislators should aim at:

- Limiting the impact of energy costs on the industrial production
- Boosting the electrification of industrial processes, where technically and economically feasible
- Incentivising the production and use of all climate-neutral energy sources
- Designing support schemes to mobilise woody biomass which would otherwise not be used

3. Funds, incentives and long-term security for investments in climate-neutral technologies

Our sector has been an early mover in low-carbon investments, focusing on energy efficiency and renewable energy solutions. The availability of technical solutions is not enough to accelerate implementation. If available, options to phase out fossil combustion are more costly, and the imminent risk of carbon leakage leaves no room for more expensive alternatives. The package can tackle non-technological hurdles to stimulate investments in low-carbon technologies and renewable and recyclable bio-based products by:

- Enlarging funds for investments in low-carbon technologies
- Ensuring long-term security for investments in Best Available Technologies
- Facilitating the use of industrial waste heat
- Incentivising the deployment of carbon capture, storage and utilisation
- Incentivising the phase out of fossil fuel combustion
- Rewarding carbon benefits of all wood products
- Creating new markets for renewable and recyclable bio-based products

Cepi's position is further explained in the following pages.

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1. Stable, predictable and effective protection for our sector

A new strategy for industry that brings together competitiveness and the reduction of CO₂ could lead the way towards a carbon-neutral and circular production in Europe. The review of the EU ETS Directive must use the opportunity to retain the regulatory stability as agreed for Phase 4 of the EU ETS. It is also crucial to maintain a stable approach to sustainability criteria for forest biomass respecting the Member States' competence on forest management. This policy predictability for the frontrunners of the European industrial energy transition can unleash the European pulp and paper industry's decarbonisation potential. The co-legislators can achieve this goal by:

- **Promoting the frontrunners of the European industrial energy transition**

The EU ETS must continue rewarding investments in reducing carbon emissions, for example by switching to renewable energy sources such as biomass or biogas. Free allowances should be granted based on the product benchmark, regardless of how decarbonisation is achieved and how high the resulting emission reductions are.

The proposal made by the Commission to exclude from the EU ETS installations where biomass contributes to more than 95% of the total energy sources contradicts the logic of supporting the industrial transition to renewable energy. In fact, it keeps the installations from contributing to reaching climate neutrality, becoming self-sufficient and reaching higher shares of renewable energy.

The leap to reduce the last 5% of fossil emissions is often the most challenging. Companies investing in solutions to reduce carbon emission to the maximum do not benefit from windfall profits. They use the revenues from selling their free allowance to pay off the critical investments.

- **Maintaining policy stability for a carbon-neutral production in Europe**

The review of benchmark values is one of the key elements of the EU ETS. The changes proposed by the Commission can affect all 11 product benchmarks of the pulp and paper sector.

Benchmarks promote and reward investments in low-carbon technologies. They can also be a measure to recognise early movers' efforts but the rules and methodology need to be clearly stated upfront to lower regulatory risks for the industry and adequately reward the installations that will invest in low-carbon technologies.

The ETS sectors must be closely consulted, should any changes to the EU ETS design be introduced. The discussion on the post-2030 framework must be initiated well in advance.

In addition, it is pre-mature to revise the existing sustainability criteria for forest biomass in the Renewable Energy Directive as the implementation of the current criteria, adopted in 2018, has started recently and only in some countries. It is unnecessary to deepen the biodiversity and soil condition criteria and introduce new criteria for forest biomass, such as the designation of no-go areas. Local conditions for biodiversity vary across the EU and cannot be effectively addressed by generalized rules in EU energy legislation. The risk-based approach for bioenergy already addresses concerns over negative impacts from increased bioenergy use. It is crucial to maintain a stable approach to bioenergy. Forestry residues and residues from our industrial processes are key to the climate neutral energy production in European pulp and papermaking.

Last, but not least, the review of the Industrial Emissions Directive (IED) presents an opportunity to increase coherence between IED and EU ETS. In order to maintain policy stability, however, the creation of double regulation legislation must be avoided at all costs. The upcoming revision of the IED should ensure that European legislation is consistent and various regulations fluently interact.

For example, an IED permitting regime should not regulate emissions when they are already regulated by the ETS.

- **Providing effective carbon leakage protection**

The proposed measures, for example the re-basing (a one-off cancellation of allowances) and strengthening of the Market Stability Reserve (MSR), can result in a severe shortage of allowances leading to an artificial increase of CO₂ prices.

In order to retain the competitiveness of European industries, free allocation at the full benchmark value and harmonised indirect carbon cost compensation must be maintained. At the same time, the European companies acting globally should be able to enjoy their flexibility to invest in low-carbon technologies in a most cost-effective manner at a time when investments are needed the most.

- **Ensuring that all sectors of European economy contribute to the more ambitious 2030 emission reduction target**

The revision of the current policy framework must not lead to the current EU ETS sectors contributing disproportionately more than others. The effort sharing needs to be justly addressed so that it delivers a fair share of emission reductions otherwise the current functioning of the EU ETS and the competitiveness of industry are threatened.

- **Recognising that a CBAM is not a universal tool to safeguard all EU ETS sectors against carbon leakage**

The European pulp and paper industry seems less suitable for CBAM than some other sectors because of its features, such as, but not limited to, positive trade balance, complex value chains and a high number of installations. Solutions for export adjustment need to be developed before CBAM can be extended to further industrial sectors. Effectiveness of CBAM needs to be thoroughly analysed and prepared for third country reactions. In the meantime, it should be a complementary carbon leakage measure, coexisting with the current tools.

2. Access to affordable climate-neutral energy sources for energy-intensive industries

Rising energy prices, be it through CO₂ pricing or fuel switch, jeopardise production and paper recycling in Europe. The “Fit for 55” package must ensure that the European pulp and paper industry stays competitive in the global market by providing access to affordable low-carbon energy sources such as renewable electricity, biogas, hydrogen or nuclear power. By amending the 2030 climate and energy policy framework, the co-legislators should aim at:

- **Limiting the impact of energy costs on the industrial production**

Energy costs in the pulp and paper industry already represent one of the highest shares of total production costs among different sectors in Europe². To keep the industry internationally competitive, the policies need to ensure that the energy-intensive industries, such as the pulp and paper sector, are not subject to a substantial increase of energy costs.

² Impact assessment accompanying the proposal for the Renewable Energy Directive (p. 168)

The current proposals risk subjecting energy-intensive industries to triple energy taxation through the Energy Taxation Directive (for the energy component), the ETS (for the carbon component from direct and indirect energy combustion), and for possible obligations arising from the new ETS. European industry must be protected against indirect climate costs occurring in the maritime sector.

- **Boosting the electrification of industrial processes, where technically and economically feasible**

An increased role of electricity in paper mills can be expected, but full electrification does not seem to be economically viable in the foreseeable future. Full electrification is particularly CAPEX-intensive as it requires replacing current assets. In addition, the cost of grid-supplied electricity is 2 to 7 times higher than natural gas, making it prohibitively expensive.

Electrification is an option to decarbonise several other sectors. Such an increase in baseload demand would have to be matched by an increase in decarbonised electricity generation and by a programme to reinforce high voltage transmission lines. This would make the cost of using electricity even higher.

One option for decreasing the costs of renewable energy would be to remove obstacles to corporate renewable energy sourcing. Power purchase agreements (PPAs) and Gas Purchase Agreements (GPAs) have the potential to minimise the risk of buying renewable energy. Member States should be encouraged through the Renewable Energy Directive (RED) to establish a framework enabling their deployment.

The Energy Taxation Directive (ETD) can further promote the electrification of the industrial processes. To this end, energy-intensive industries exposed to the risk of carbon leakage, as is the case for the pulp and paper industry, should be fully excluded from the scope of the Directive. This is, de facto, already happening for many other energy intensive industries not covered by the ETD. This discrimination between sectors needs to be removed.

The revised Climate, Energy and Environmental Aid Guidelines will also be instrumental in incentivising investments in industrial electrification technologies. A clear and stable state aid framework that is to accompany the “Fit for 55” legislative package is needed to safeguard industries' competitiveness in the global market.

- **Incentivising the production and use of all climate-neutral energy sources**

The pulp and paper sector is one of the frontrunners of using renewable energy in its production processes. It is important that the renewable energy target for the industry proposed in the RED remains indicative while various climate-neutral energy sources become widely available. Such a target should consider the starting point of each of the Member States.

To increase the uptake of renewable and low-carbon gases, even off the gas grid, the industry should be rewarded for its individual decision to purchase or to produce them. Tradable Guarantees of Origin (GO) should continue to be recognised as proof of purchased and used biogas under the EU ETS. A GO and/or purchase agreement/receipt of the biomethane purchase combined with sustainability information/certificate should suffice as the required ‘purchase record’.

By having access to all decarbonisation solutions, the industry can better contribute to reaching the decarbonisation target. To this end, a liquid and competitive gas market is needed to support the deployment of all renewable and decarbonised gases. In addition, the Energy Taxation Directive should allow Member States to exempt all renewable fuels in order to further support industrial decarbonisation. Member States could consider developing a regulatory framework to

specify authorisation processes that facilitate the on-site use of residues. This could further reduce the industrial use of fossil fuels.

- **Designing support schemes to mobilise woody biomass which would otherwise not be used**

If support schemes are needed, they should be designed in a way that avoids undue distortions of the raw materials markets. The aim should be to increase woody biomass availability for all purposes and allow the continuation of efficient resource allocation. The cascading use principle could be included in the design of support schemes. However, instead of regulating cascading use at EU level, its application must be decided by Member States following the existing European Commission guidance while taking into account regional specificities including changes in the raw materials markets. Biodiversity is considered in the sustainability criteria and does not have to be addressed in support scheme design. Finally, with respect to the waste hierarchy, support should not be granted to the production of energy produced from waste incineration if a Member State does not comply with separate waste collection obligations.

3. Funds, incentives and long-term security for investments in climate-neutral technologies

Our sector has been an early mover in low-carbon investments, focusing on energy efficiency and renewable energy solutions. The availability of technical solutions is not enough to accelerate implementation. If available, options to phase out fossil combustion are more costly, and the imminent risk of carbon leakage leaves no room for more expensive alternatives. The package can tackle non-technological hurdles to stimulate investments in low-carbon technologies and renewable and recyclable bio-based products by:

- **Enlarging funds for investments in low-carbon technologies**

The EU ETS Directive can better support the industries investing in low-carbon technologies by increasing the budget of the Innovation and Modernisation Funds and introducing new financing instruments (such as Carbon Contracts for Difference).

Funds that originate from industry's free allocation share should be used to develop innovative production processes in the industry.

- **Ensuring long-term security for investments in Best Available Technologies**

Combined Heat and Power (CHP) is one of the Best Available Technologies (BAT) for our industry. It enables the pulp and paper industry to be one of the largest "prosumers" in Europe, with about half of the consumed electricity being produced on-site via highly efficient cogeneration.

The Energy Taxation Directive can contribute to achieving a greater energy efficiency. To this end, it should be clearly allowed to exempt the use of natural gas in high-efficiency CHP. This can also facilitate the transition to renewable fuels such as biomethane and hydrogen.

In cases where renewable alternatives can gradually be phased in, for example the natural gas supply can be replaced by biomethane, it should be possible for Member States under the Energy Efficiency Directive (EED) to account for the efficiency gains achieved by technologies such as CHP in the energy saving schemes.

This on-site cogeneration brings energy and emission savings for the energy system as a whole. Therefore, the proposed criteria should prevent the move from the on-site electricity production from cogeneration to purchasing the electricity from the grid. Such a shift might have a negative impact on reaching higher emission reductions in Europe. In addition, the new criteria for high-

efficiency cogeneration proposed in the EED need to ensure that today's investments by the pulp and paper industry can deliver energy efficiency in the future also. It is crucial that simultaneous production of electricity and heat, which is needed to produce paper, continues to be promoted.

- **Facilitating the use of industrial waste heat**

The Renewable Energy Directive has the potential to ensure a long-term security for investments in pulp and paper mills. When Member States increase the share of energy from renewable sources and from waste heat and cold in district heating and cooling, our sector can plan to participate in an integral system by designing the most sustainable solutions.

Member States should put in to place a coordination framework between district heating and cooling system operators and the potential sources of waste heat and cold in the industrial sectors to facilitate the use of industrial waste heat.

Such coordination should also be achieved through the EED which is to encourage regional and local authorities to prepare local heating and cooling plans. It could be valuable for municipalities with a total population of less than 50.000 to also develop these plans when industrial installations can make renewable heating and cooling available to the community.

- **Incentivising the deployment carbon capture, storage and utilisation**

Pulp and paper mills are potential application sites for carbon capture, storage (CCS) and utilisation (CCU). Negative emissions can be achieved thanks to combining bioenergy production with carbon capture and storage (BECCS) but a regulatory framework is needed in order to incentivise the deployment of this technology. It needs to become available and economically viable for industry to achieve zero or negative emissions.

It is positive that the proposal for the revision of EU ETS Directive establishes that surrender obligations do not arise for CO₂ emissions that are stored in a storage site or end up permanently chemically bound in a product. However, it is of critical importance for the industry that this proposal is clarified and not undermined by the upcoming framework for obtaining a carbon removal certificate or by implementing acts which are to define eligible products.

Energy efficiency and energy consumption are two different matters. Industry is often confronted with competing policy objectives not necessarily promoting energy efficiency. Decarbonisation efforts such as carbon capture and utilisation can lead to increasing energy consumption. Therefore, lowering the energy consumption cap seems to be outdated logic. This can be avoided by removing the energy consumption cap. The Energy Efficiency Directive ambition cannot result in lower industrial production and the undesired deindustrialisation of Europe.

- **Incentivising the phase out of fossil fuel combustion**

Hard to decarbonise and energy-intensive industrial processes need to be given special attention to facilitate a progressive transition towards a decarbonised European energy system. One of the supporting measures of the RED should also allow the industry to receive support from Member States through planned replacement schemes of heating systems running on fossil fuels or fossil phase out schemes, when renewable alternatives are available.

At the same time, integration of new renewable installations in existing mills may be challenging. Member States encouraged through the RED should ensure that trained and qualified installers of renewable systems are available in sufficient numbers to service sectors investing in innovative technologies.

- **Rewarding carbon benefits of all wood products**

Wood-based products have a very low climate impact. They also reduce demand for products and energy based on fossil-intensive resources. Carbon benefits of all wood products, such as carbon storage and the substitution potential, must be considered. To optimize the forest sector contribution to reach climate change targets, active forest management must be ensured. Healthy growing forests are essential to increase the forest and forest sector contribution to climate change mitigation through both the CO₂ sequestration in forests as well as the storage and substitution effects in forest products. This approach could ensure that there is a balance between the contribution to the climate targets by reducing fossil emissions and the CO₂ removal in natural sinks.

By setting too high targets to remove CO₂ by the LULUCF sector by 2030, there is an overemphasis on the sink function of European forests. Products and energy from forests are just as central to climate change mitigation as large and growing forests that absorb and store carbon. In addition, if a common AFOLU sector (Agriculture, Forestry and Other Land Use) is to be created, forests need safeguards so that they are not used to offset emissions from the agricultural sector. Both setting a too high target and merging the sectors would lead to reduced raw materials availability for the forest sector, which would strongly impact its ability to deliver wood-based products to the society and therefore its contribution to climate change mitigation. It would also increase the pressure on the use of forests outside Europe.

- **Creating new markets for renewable and recyclable bio-based products**

The EU has to promote renewable and recyclable bio-based products in order to benefit from their climate mitigation potential and reach climate neutrality by 2050. The creation of a lead market for renewable products is one of the elements of the enabling framework but the duplication or overlapping of measures should be avoided.

When verifying green claims and the environmental performance of industrial products, the RED needs to ensure alignment with the upcoming legislative proposals such as the Green Claims and Sustainable Products Initiative so that the new instruments proposed by the Commission consider the existing methods, such as Product Environmental Footprint (PEF), certification schemes for sustainable forest management and international standards.

A level playing field should be ensured for imported goods which is why the product passport scheme under SPI should also cover imported goods.
