

Options for ensuring security of energy supply and tackling high energy prices

Reaction 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.

Today our mills must take difficult decisions to temporarily stop production across Europe due to the extreme energy prices following the Russian invasion of Ukraine. Reducing activity in our sector is a real-world threat to our competitiveness in the global market. Our industry has been experiencing high energy costs since summer 2021. Over the months we have seen energy prices increasing even up to 8 times. The forecasts show that the situation is not likely to improve in the months to come. The lasting impact of the currently ongoing crisis and recent breakdown of the energy system is deeply concerning. It endangers our industry's existence in Europe, not to mention the capacity to invest in further industrial transformation before 2030 to achieve the climate targets.

Cepi acknowledges the Commission's efforts to discuss with Member States policy options for ensuring security of energy supply and tackling high energy prices. We use this opportunity to react to some of the possible solutions to address the devastating impact of unbearably high energy prices on operations of the European pulp and paper industry. **In the context of the publication of the "Security of supply and affordable energy prices" communication, Cepi expects the European policy framework to promote the following solutions:**

1. Securing natural gas supply for the industrial production

To prevent natural gas shortages in Europe, the European and national policymakers should investigate all opportunities to reduce current gas consumption in order to increase storage capabilities. This could be done by reducing gas use for conventional or separate electricity production, without hindering the baseload generation, the security of electricity supply and excluding industrial CHP operators.

In its "A 10-Point Plan to Reduce the European Union's Reliance on Russian Natural Gas", the International Energy Agency (IEA) assesses that an additional 70 TWh of power generation from existing dispatchable low emissions sources, such as nuclear, could result in reducing gas use for electricity by 13 bcm. In addition, according to the IEA, gas demand in the power sector would be further reduced through gas-to-coal switching: an additional 120 TWh in coal-fired generation could cut gas demand by 22 bcm in one year.

In case of possible shortages of gas supply, the industry should have unlimited access to gas to maintain its production levels. The supply chain disruptions could have major implications for our industry. Products of all kinds made of pulp and paper, including packaging and essential hygiene products, are depending on natural gas supplies. This includes the transport and delivery of food and pharmaceuticals, including to the populations which need it the most in the face of the multiple current crises.

2. Providing flexibility in complying with the environmental legislation

One of the options to maintain operations despite energy shortages is to temporarily switch from natural gas to less environmentally friendly energy sources such as oil or coal. In such emergency cases, the national authorities should be able to provide flexibility for the industry to comply with the environmental legislation. It is worth noting that a temporary shift from gas to coal- or oil-fired combustion could reduce gas demand, but also increase the EU's energy-related emissions.

Another option to continue operations in the case of a natural gas shortage is to opt for fuels such as LNG, LPG or hydrogen. Such a shift would also require quick decisions by permitting authorities to ensure that these solutions are available for the industry.

3. Introducing minimum gas storage obligations to ensure security of supply

As explained by the IEA, gas storage plays a key role in meeting seasonal demand swings and providing insurance against unexpected events that cause price spikes. In the context of the current geo-political situation, the role of strategic gas reserve becomes even more critical.

Cepi welcomes the European Parliament's swift action to support an obligation for a minimum 80% gas storage level by 1 November 2022. We expect the Member States to remain open to discuss the Commission's proposal to ensure a level playing field. It is important, however, to ensure that the ambition to speed up the refilling of gas reserves will not lead to rising energy prices or limiting gas availability for the manufacturing industries. In the new set up of the gas flows and storages, making sure that the industry is not subject to higher transmission tariffs will be essential.

4. Negotiating joint gas purchases for the EU to secure affordable gas supply

Access to affordable clean energy is one of the core policy asks of Cepi in the context of the 2030 policy framework. The Commission rightly points out that "the EU should act jointly to harness its market power through negotiated partnerships with suppliers". Europe should ensure that gas supply remains affordable to the industry by establishing a process for a joint gas procurement. It can be assumed that the EU could exercise its market power to ensure that gas import contracts

The industry should be involved in discussions with the possible Task Force on common gas purchases at EU about "pooling demand". Striving to provide an affordable price for gas when significantly diversifying the EU's gas supplies and contracts should be prioritised over solutions intervening in the market mechanisms.

Capping the retail and wholesale prices of electricity and gas could be considered when the market is failing to react adequately to unusual and unforeseen developments. Under currently extraordinary circumstances, one can entertain an idea to explore emergency measures. But if ever introduced, a potential temporary measure has to be coordinated at the EU level so that it takes into account particular national circumstances and does not distort the European market.

When it comes to **the upcoming REPowerEU plan, Cepi welcomes the Commission's ideas to:**

- Simplify and shorten the permitting of renewable projects
- Promote the development of power purchase agreements (PPAs) in Europe
- Help further develop the value chain for heat pumps, which could be a solution to further decarbonise the production of paper
- Accelerate the deployment of innovative cost-competitive renewable electricity in industrial sectors
- Bring forward the implementation of the Innovation Fund to support the electrification, including through an EU-wide scheme for carbon contracts for difference

Cepi encourages the Commission to investigate how to accelerate the installation of innovative zero- and low-carbon equipment, not only such as electrolyzers, next generation solar/wind, but first and foremost breakthrough technologies in the manufacturing sector.

The Commission should rethink their approach to bioenergy in the industry. Leading up to 2030, the “Fit for 55” package should facilitate the industry’s access to sustainable, home-grown energy sources. Currently, 62% of the European pulp and paper industry’s energy mix comes from sustainable biomass. This makes our sector the largest industrial user of renewable energy which increases both our self-dependency and security of energy supply.

The pulp and paper industry is a prosumer of biogas. The objective to double the biomethane production by 2030 is a welcome opportunity to reduce natural gas demand in Europe. But the policy framework needs to ensure that the free market of sustainable biomass, such as forest waste and residues, is not distorted by subsidies.

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Cepi is the European association representing the paper industry. We offer a wide range of renewable and recyclable wood-based fibre solutions to EU citizens: from packaging to textile, hygiene and tissue products, printing and graphic papers as well as speciality papers, but also bio-chemicals for food and pharmaceuticals, bio-composites and bioenergy. We are a responsible industry: 86% of our raw materials are sourced from within the European Union and 78% of the wood comes from certified forests, 92% of the water we use is returned in good condition to the environment. We are the world champion in recycling at the rate of 73.9%. At the forefront of the decarbonisation and industrial transformation of our economy, we embrace digitalisation and bring 18.5 billion value addition to the European economy and €4.5 billion investments annually. Through its 18 national associations, Cepi gathers 495 companies operating 895 mills across Europe and directly employing more than 180,000 people.
