

## Options for maintaining a functioning energy market and shielding the industry against high energy costs

### Reaction paper

Cepi represents the European pulp and paper industry and gathers, through its 18 member countries, some 885 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.

Due to high energy costs, our mills take difficult decisions to temporarily stop or reduce production across Europe. Reducing activity in our sector is a real-world threat to our competitiveness in the global market. Today the European pulp, paper and board production represents 21.7% of the world production. It is strong in export markets, with an export rate of 22% of its paper and board production. The pulp and paper industry has a turnover of 95 billion euros and adds 21 billion euros to the EU GDP. The lasting impact of the currently ongoing energy crisis is deeply concerning.

Our industry has been experiencing high energy costs since summer 2021. The forecasts show that the situation is not likely to improve in the short-term. Therefore, urgent actions are needed to tackle the root cause of the energy crisis which is imbalance in supply and demand on the energy market. Disruptions in gas supply combined with lower electricity generation in the EU result in record-breaking energy prices. This supply side challenge is especially heavily reflected on the electricity markets. The continuously high energy costs endanger 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 European policymakers' efforts to present measures for addressing high energy prices. We use this opportunity to react to possible solutions to address the devastating impact of unbearably high energy prices on operations of the European pulp and paper industry.

#### **Cepi expects the European Commission and Member States to promote the following solutions:**

##### **1. Restoring the supply-demand balance on the energy market**

The European and national policymakers should seize all opportunities to reduce current gas and electricity consumption. This could be done by reducing gas use for conventional or separate electricity production by promoting fossil-free power generation for example nuclear, and by removing obstacles for the use of existing non-gas-fired generation. This should be achieved without hindering the baseload generation, the security of electricity supply and excluding industrial CHP operators.

An emergency, time-limited intervention in the electricity market structure is unnecessary to ensure gas consumption savings. Market interventions without prior impact assessments can jeopardise the functioning of the EU energy markets for years to come. Any emergency policy intervention needs to safeguard market predictability for all market participants also in the long term.

In case of possible shortages of gas supply, the industry should have priority, if possible unlimited, access to gas to maintain its production levels. The supply chain disruptions could have major implications for the industry, particularly the pulp and paper sector, and should be minimised. Any abrupt shutting down of our plants might be dangerous for our employees as well as will require even more gas to restart operations afterwards.

The pulp and paper industry is the largest industrial generator and user of renewable energy with over 61% share of sustainable biomass in the sector’s energy mix. Yet the industry’s gas consumption in 2020 was 10.6 billion cubic meters. Nearly 3% of EU gas consumption for that year. Some mills already optimise their production, CHP utilisation and electricity consumption in relation to electricity market price forecasts. For example, by having invested in flexibility that enables paper machines to run, while mechanical pulp production can be high in night hours.

In this context, it is important to address the root cause of the energy crisis. Incentives to reduce electricity and gas consumption must be maintained and additional measures are needed to also address the root causes of the energy crisis. In addition, leaving Member States’ flexibility to take uncoordinated decisions at national level might lead to an unlevel playing field.

**Priority actions**

- Maintaining the price signal in the markets so that demand/supply balance can be retained in all situations
- Securing a stable power supply by reducing gas use for conventional or separate electricity production, without hindering the baseload generation
- Avoiding curtailment of gas supply to minimise the risk of unplanned shutdowns of operations
- Ensuring all market participants have incentives to reduce current gas or electricity consumption, without compromising the industry’s competitiveness on the global market
- Incentivising voluntary demand-side flexibility services offered by the industry

**2. Securing affordable gas supply through joint gas purchases for the EU**

Access to affordable clean energy is one of Cepi’s core policy asks in the context of the 2030 policy framework. The Commission rightly points out that the European Union “should also use its market leverage to secure gas at globally competitive prices”<sup>1</sup>. Europe should ensure that gas supply remains affordable to the industry by facilitating joint gas procurement.

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. In particular, the policy framework should prioritise the access of industry to long-term contracts that secure the gas supply at an affordable price.

**Priority actions**

- Securing that increased European gas imports result in lowering gas prices for the industry

**3. Creating a stable and predictable environment for investments**

The European policymakers should focus on ensuring that the proposed policy measures provide the market participants long-term investment signals to ensure further electrification and decarbonisation. A high degree of investment certainty and market predictability in the medium- and long-term is especially important when designing any future measures.

<sup>1</sup> European Commission (2022) “Energy Emergency - preparing, purchasing and protecting the EU together” communication

The Commission’s proposal to shorten permit grant time for fossil-free electricity projects is key to accelerating clean energy supply on the European electricity market. In parallel, long-term supply contracts, such as Power Purchase Agreements (PPAs), must be further facilitated. PPAs are one of the solutions which could ensure affordable energy for the industry.

When revising the EU’s internal electricity market rules, including decoupling electricity and gas prices, the Commission should aim at involving the industrial payers in the discussion. Markets have a crucial role to incentivise market participants to balance the system. The future fossil-free electricity system requires more attention on flexibility to ensure electricity supply and demand are constantly in balance.

The upcoming reform should ensure that there is going to be a level of trust to participate in the new energy markets. For example, an alternative gas market reference index to TTF based on LNG market transactions can be introduced in a test period and maintained only if market actors evaluate it positively.

**Priority actions**

- Introducing testing periods for measures that intervene in the gas and electricity markets to ensure a thorough evaluation and validation by the market participants
- Rapidly accelerating the market penetration of renewable energy
- Offering financial support to industries which invest in switching to electricity-based manufacturing processes
- Ensuring the effective grid expansion and competitive electricity price in the long term

**4. Shielding the industry and households against high energy costs**

The paper industry is a perfect example that this is not about a choice between protecting citizens and continuing the industrial production. Paper products are essential to the functioning of society and many industrial sectors in Europe. A disruption to their production will have a ripple effect on the entire European economy.

Our mills also provide district heating, as a by-product of our activities, and wastewater treatment services. In many places, stopping the provision of gas to paper mills will mean no heat this winter for entire neighbourhoods. That is a human cost, it will be felt by EU citizens, which should be avoided.

Offering temporary energy cost reliefs to households, small and medium-sized enterprises (SMEs) and energy-intensive industries is a welcome measure. By ensuring that emergency subsidies targeting the price cover only a part of the energy consumption, such solutions would still give sufficient incentives to save energy.

The prolongation of the State aid Temporary Crisis Framework is a welcome development. However, the reference period for the calculation of the maximum eligible cost could be further revised in order to provide effective support. The reference period should reflect the fact that the industry observed a sharp rise of energy prices already in summer 2021. The Commission should further reflect on the EBITDA requirements to account for various operating models. As it stands, the framework does not cater for the needs of all eligible energy-intensive companies.

**Priority actions**

- Introducing relief mechanisms for the industry’s exponentially growing energy costs
- Offering financial support to industries which reduce their dependency on fossil fuels in their operations

- Securing sufficient national budgets to provide the industry with meaningful state aid
- Ensuring that national administration has sufficient resources to process efficiently the industry's applications for state aid
- Further amending the State aid Temporary Crisis Framework to better reflect the business realities

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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: 85% 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 71.4%. At the forefront of the decarbonisation and industrial transformation of our economy, we embrace digitalisation and bring 21 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 179,000 people.

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