

BRIEFING FOR COMMISSIONER KADRI SIMSON

VIRTUAL MEETING WITH CEPI REPRESENTATIVES

15 APRIL 2021

SCENE SETTER

- You are invited by the Confederation of European Paper Industries (CEPI) to discuss **energy efficiency and renewable energy pathways for the paper industry**.
- The participants from CEPI are (CVs in background):
 - Ignazio Capuano, CEO of the Burgo Group and CEPI Chairman
 - Miles Roberts, CEO of DS Smith and member of the CEPI Executive Committee.
- CEPI represents 500 European paper companies through its 18 national associations. Its mission statement includes securing pulp and paper industry competitiveness hand in hand with maintaining sustainability. CEPI represents 22% of world production, €81 billion of annual turnover to the European economy and directly employs over 175,000 people.
- In November 2020, the **association launched its 2030 Industry Manifesto**. You have been invited by CEPI on the occasion of presenting the report to you and discuss pathways to a carbon neutral future for the paper industry.
- In the 3-page paper, CEPI takes the following lines:
 - The **paper industry is committed to contributing its part to the carbon-neutral transition**. Since 2005, they have already achieved a 29% reduction of carbon emissions.
 - There are still **substantial potentials for greenhouse gas emissions reductions** in the pulp and paper sector. In order to unlock these potentials, political support is required.

- The potentials for emissions reductions in the paper industry can be structured in three categories, where the latter is most relevant from an energy perspective.
 - **Product substitution:** For a substitution of fossil-based products, CEPI calls for support of renewable/recyclable products.
 - **Sustainable forest management:** To secure the role of forests as carbon sinks and safeguards to biodiversity, a new EU forest strategy would be needed.
 - **Decarbonised production:** As production processes in the paper industry barely include process emissions, **fossil emissions are almost exclusively energy-related**. The EU's industrial strategy should therefore reconcile competitiveness and emissions reduction incentives. This could occur through i) the promotion of investments in energy efficiency, renewable energy and emissions avoidance, ii) affordability of climate-neutral energy sources – including hydrogen, as well as iii) support for the phase-out of fossil fuel combustion.
- CEPI highlights the **risk of carbon leakage** with the more ambitious 55% target and calls for a stabilisation of respective countermeasures.
- The paper industry's project **REINVEST 2050** serves as a showcase for best practice projects across the industry. It is produced biannually and the current edition describes 21 case studies in 16 companies from 12 EU countries. It demonstrates how forest fibre and paper companies **reduce carbon emissions, predominantly by improving energy efficiency and switching to renewable energy sources**.

LINES TO TAKE

[2030, Fit-for-55]

- **With the 2030 Climate Target Plan**, we showed that increasing the climate target to at least 55% net greenhouse gas emission reduction:
 - i) is feasible,
 - ii) will put us on the right trajectory to climate neutrality in 2050,
 - iii) but requires an **increased effort** and contributions by all sectors of economy.
- In **2020** Commission **proposed a number of important strategies to deliver the European Green Deal**: the energy system integration, hydrogen, renovation wave, and offshore renewable energy strategies and the revision of the TEN-E Regulation.
- The **Fit-for-55** package is another important milestone. We will show already in June how we want to translate the headline target - EU greenhouse gas emissions reduced by at least 55% by 2030, compared to 1990 – into new renewables and energy efficiency targets.
- To remind you the challenges ahead, we estimated – in the Impact Assessment of the Climate Target Plan – that the energy efficiency ambition resulting from the new climate target needs to be increased from 32.5% to 36-37% for final and 39-41% for primary energy consumption.
- For renewables, our analysis suggest that the share will have to increase from 32% to 38-40% by 2030. This would constitute a rapid increase of the share of renewable power in our electricity mix, from around 35% today to 60% by 2030.

- Looking forward, we need to **achieve climate-neutrality** by 2050. We also need to ensure that EU's **competitiveness** will not only be maintained, but will even be **reinforced**.
- Being **at the forefront of clean technologies** is the only way to achieve the double objective of climate-neutrality and being competitive on global markets.

[Links to the paper industry]

- Being a large energy consumer, the paper industry is a critical partner in achieving our climate objectives and its activities will have important implications for our future energy mix.
- You are already showing ambition. We appreciate your Industry manifesto and recognise the fact that on-site primary energy production throughout CEPI members is already 59% renewable. But we must press forward.
- We hear your statement that with substantial support from the EU, the already ambitious climate and energy targets set by your industry could potentially be exceeded.
- You call for a regulatory framework that promotes, de-risks, supports and rewards investments in energy efficiency, CO₂ avoidance and renewable energies. You also underline the importance of availability of affordable climate-neutral energy sources – such as electricity, biogas or hydrogen – without sectoral restrictions.

[EU supportive policies & funding]

- We hear you and we are already doing a lot to help.
- As announced by President von der Leyen in the State of the Union address, the scale and intensity of the COVID-19 crisis urges the Commission to accelerate its efforts and present an update of the New Industrial Strategy for Europe.

- The update strategy will focus on (1) strengthening our Single Market for the handling of future emergencies and to deepen it as Europe's engine for recovery and resilience (2) contributing to identifying Europe's strategic dependencies and support fostering its strategic capacities and (3) addressing the need to accelerate the green and digital transitions of our industries and businesses to meet our ambitious climate-neutrality and digitalisation goals.
- To support the ambitious targets following the climate target plan, we have put forward our proposal for the revision of the Trans-European Networks for Energy (TEN-E). Things that might be of interest to you there include creating new infrastructure categories for cross-border hydrogen networks for long-distance transport, large electrolyzers, cross-border CO₂ pipelines, and a new focus on offshore electricity grids.
- As discussed in our energy system integration strategy and our hydrogen strategy, we are also exploring options to increase the production of and demand for renewable and low-carbon fuels, including hydrogen. As such, we are considering dedicated policies to support the use of renewable energy in the industrial sector.
- We have just wrapped up the first round of the competition for Innovation Fund support. The Fund was designed to support innovative decarbonisation projects. I'm happy that among the projects that got to the second stage are also pulp and paper related ones both in the large-scale call and in the small-scale call.
- I hope that at least some of them will make it to the award decision. In any case, there will more calls in the future and we will welcome more applications from innovative projects in the pulp and paper sector.
- I would also like to point out that industrial projects are eligible to apply for funding under the Just Transition Fund. Please explore this possibility as I think that your industry could play an important role in some just transition regions.
- Member States are currently finalising the drafting of their Recovery and Resilience Plans. These plans are a unique opportunity to put forward the investments needed to help accelerate the green transition, and strengthen the clean industry supply chains within their countries.

- As part of the Recovery and Resilience Facility, we have prepared a dedicated flagship called 'Power Up' to help guide Member States in their preparation of their plans to support more renewables and renewable hydrogen production.
- These plans are due this month. I would be interested to know if any of your projects will be part of the plans we expect from the Member States.

[Questions to CEPI]

- (See also defensive 1) We know how important for your competitiveness is the issue of carbon leakage and our policy measures designed to address it. We are taking part in discussions on carbon border adjustment mechanism and I would be interested to know your views about it.
- (See also defensives 2&3) In its project REINVEST 2050, CEPI shows the commitment of the forest fibre and paper industry to demonstrate how the industry is reducing its carbon emissions. A 59% share of renewable energy in the industry energy mix is mentioned. Only one of the case studies, though, refers to the use of electricity to reduce emissions (through solar energy). What are the obstacles to a wider use of electricity by the pulp and paper industry (for instance through Power Purchase Agreements – PPAs)?

DEFENSIVE POINTS

1- How will the revision of the EU ETS impact the decarbonisation of the European pulp and paper industry?

- The revision of the EU ETS, the introduction of a possible carbon border adjustment mechanism, and the revisions of the renewable energy and energy efficiency directives are all part of the “Fit for 55” package.
- The Impact Assessments for these legislative proposals are coordinated, which means that we are assessing the aggregated impacts of these revisions. There are no decisions yet on the policy mix.

2- We need more renewable electricity and associated infrastructure to decarbonise the pulp and paper sector. How can this be achieved?

- Our energy system integration strategy recognises the need to scale up the production of renewables. Electrification of the end-use sectors, as well as the production of renewable and low-carbon fuels are two of the pillars of our strategy.
- The Commission put in place the framework for a new **electricity market design** to make the market fit for renewables under the Clean Energy Package. Our proposal for the revision of the TEN-E Regulation is supporting the development of **infrastructure** to deliver this renewable power to end-consumers, like the pulp and paper industry.
- We are also revising the renewable energy directive to put forward better incentives. In the last revision, we added the obligation for Member States to facilitate renewable **power purchase agreements** (PPAs) and we are looking how to reinforce these provisions.
- Last but not least, with the funds of the **recovery and resilience facility** and its 37% target on green spending, we have a unique opportunity to build the future-proof energy system and to support renewable projects and integrate them in the system.

3- What will the Commission do to support the uptake of renewable power purchase agreements?

- The Commission recognises the important role that corporate renewable power purchase agreements (PPAs) play improving the competitiveness and corporate social responsibility of industrial energy consumers. Despite COVID, corporates signed 7 GW of corporate PPAs in 2020, compared to 2.5 GW in 2019.
- We are revisiting the renewable energy directive with the intention to strengthen support for corporate PPAs. Options include financial support instruments to help small- and medium-size enterprises take advantage of the emerging markets, the development of guidelines for Member States, or stricter regulatory measures to remove any remaining barriers to corporate renewable PPAs.

4- Options to phase out fossil combustion are costly. How can we make electricity more affordable?

- The cost of renewable energy technologies has dropped significantly in the past 10 years and further improvements are expected. However, in several parts of the EU, electricity prices incorporate a high level of taxes and levies, while some fossil fuels are taxed at lower levels. We would need a tax system that incentivises electrification across different sectors of the economy.
- We are working on a new energy taxation proposal, in which we are addressing this. Taxation issues requires unanimity, so we need all the support we can get to ensure that Member States also see the benefits of more coherent and Europeanised approach to setting taxation rates that are compatible with our climate objectives.

5- How does the Commission see the issue of biodiversity / biomass?

- Moving forward, reaching carbon neutrality will require increasing amounts of sustainable bioenergy. In particular, bioenergy is important to decarbonize hard-to-abate sectors in the context of an integrated energy system (e.g. heavy-duty transport, industry) and deliver negative emissions (i.e. cogeneration with Carbon Capture and Sequestration - CCS).
- A recent JRC report on forest bioenergy provides detailed assessments of a wide variety of possible pathways for biomass sourcing. This analysis found, on the one hand, several bioenergy pathways that can have positive climate and biodiversity impacts.
- For example, afforestation on former agricultural land with mixed species plantations or with naturally regenerating forests would enhance the terrestrial carbon sink even before producing biomass for energy, while at the same time improving ecosystems' conditions.
- On the other hand, it can be highlighted that the conversion of natural and old growth forests to plantations aiming to provide wood for material and energy uses would lead to negative biodiversity impacts, with no carbon mitigation benefits in the short-medium term.

BACK GROUND

Participants

Mr Ignazio Capuano is Cepi Chairman since January 2020, and is CEO of the Italian firm Burgo Group Spa and Vice President of the Italian paper manufacturers' association Assocarta.

Mr Capuano holds an Engineering degree and a Master's degree in Economy from the University of New York and has been working for the paper industry since 1991 as general manager of Saffa, CEO of Reno de Medici and presently, since 2016, as CEO of Burgo Group.

The Burgo Group is the industrial holding company of a group operating in the production and distribution of paper for the graphics sector, speciality papers (for example for food use) and cardboard, as well as in the production and sale of fibrous raw materials (chemical pulp, mechanical pulp, deinked pulp) and energy.

With 12 plants, 15 production lines and the sale of almost two million tonnes of paper, the Burgo Group is one of the leading European producers of graphic papers, speciality papers and containerboard for the packaging sector.

The company has revenue of 1.698 million EUR (2019, 89% in the EU) and 3407 employees.

Miles Roberts is member of the Cepi Executive Committee and CEO of DS Smith since 2010.

He took engineering at Bristol. He trained as an accountant before heading back into construction at Trafalgar House and Générale des Eaux in Paris. Returning to London, he became finance director at Costain, then CEO of cleaning products maker McBride.

DS Smith is a leading provider of sustainable packaging solutions, paper products and recycling services worldwide, operating in more than 30 different countries, employing over 30,000 people.