

The revision of CEEAG and GBER¹

Enabling framework for the biggest source of renewable energy in the EU

Position paper – July 2021

The main aim of the forthcoming revision of the Guidelines on State aid for climate, environmental protection and energy (CEEAG) is to align them with the increasing climate ambitions of the EU as well as with the altered market and the technological reality. The next decade will be crucial for the rapid decarbonisation of the energy sector. This process will be implemented thanks to the revision of the main tools of the EU energy and climate policy, introduced by the 'Fit for 55' package. **The CEEAG framework must contribute to this process, providing Member States with enough flexibility to design fit-for-purpose support measures, support sustainable investments, by setting a level playing field among different clean technologies and facilitate the introduction of new and innovative products and processes to the market.**

1. Where are we now?

Bioenergy is the largest source of renewable energy in the EU. Overall, it provides 10% of the gross final energy consumption² and it accounts for more than half of the entire consumption of renewable energy in the EU.

Starting in 2021, any biomass product used as a fuel for heat and electricity production, is required to comply with sustainability criteria and greenhouse gas (GHG) emission saving criteria enshrined in Article 29 of the Renewable Energy Directive³. To be regarded as sustainable and eligible for public support, the sourcing of biomass must comply with a set of criteria including the legality of harvesting, forest regeneration and GHG saving criteria. With sustainability criteria for agriculture and forest, as well as **Life Cycle Analysis of GHG emission reduction**, bioenergy is sustainability champion, paving the way for the future sustainability framework for other energy sources as well as for food and material supply.

Furthermore, bioenergy is a local and decentralized renewable resource which is predominantly based on locally sourced value chains. Therefore, it is a heavily job-intensive sector with overall 710 000 direct and indirect jobs, providing additional streams of revenues, not only for farmers and foresters, but also for many other service providers and highly qualified engineering jobs in rural areas⁴. Support granted to bioenergy will spread across the entire value chain and thus vastly contribute to rural and regional development.

¹ Climate, Energy and Environmental State aid guidelines and General block exemption Regulation

² Eurostat, Energy statistics – an overview

³ Biofuels for transport need to comply with sustainability criteria since the first Renewable Energy Directive (2009/28/EC)

⁴ Calculations prepared by Bioenergy Europe based on the Eurostat data

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2. State aid and the transition

The future of the bioenergy industry will depend on its sustainability performance. In this regard, the sector is in the process of implementing thoroughly sustainability criteria. Subsequently, bioenergy use will be based on the improved traceability and transparency of the value chain and the environmental impact of forest management that is necessary for climate change adaptation. This perspective is in line with the energy and climate objectives of the EU. The analysis of the main documents prepared by the Member States (Integrated National Energy and Climate Plans), and by the European Commission (Communication on 2030 Climate Target) demonstrates **the increasing role of bioenergy in the EU energy mix by 2030 and 2050**. Similarly, according to the recent report of the International Energy Agency 'Net Zero by 2050' the modern bioenergy share in the total energy supply will rise from 6.6% in 2020 to 18.7% in 2050. In this context, **public investments and support facilitate meeting both sustainability requirements and increasing the contribution of bioenergy in the energy mix**, providing dispatchable generation capacities that are complementary with the increasingly intermittent energy mix, and helping to decarbonise fossil fuel dominated sectors like heating, transport, and electricity.

3. How do we get there?

The transition towards climate neutrality will require unprecedented financial mobilization⁵. State aid conditioning access to public investment and guarantees will play the key role in tipping the market balance for numerous projects and allowing clean and innovative technologies to flourish. **The bioenergy sector advocates for the most efficient use of public support to modernise and innovate the bioenergy sector outlook.**

To achieve this, the CEEAG should entail the following 6 main messages:

MAIN MESSAGES

1. The revised CEEAG should mirror the existing Renewable Energy Directive II and be consistent concerning the definitions used. In this regard, any form of arbitrary differentiation among renewable technologies, for instance by introducing the term 'zero air pollution renewable energy sources', is unacceptable and undermines the principle of the coherence of the EU law.
2. Member States should benefit from increased flexibility to design fit for purpose support schemes and cut red tape. It can be achieved thanks to higher notification thresholds.

⁵ According to the Impact Assessment's accompanying communication "Stepping up Europe's 2030 climate ambition - Investing in a climate-neutral future for the benefit of our people", the implementation of the least ambitious baseline scenario would require for the period of 2021-2030 energy system investments (excl. transport) of **on average EUR 336 billion per annum** (constant prices of 2015), equivalent to 2.3% of GDP.

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3. Biofuels including sustainable food-based biofuels and bioliquids should be recognized and supported as one of the main existing technologies facilitating the decarbonisation of the transport sector. Their contribution to GHG mitigation must be maintained.
4. Operating support for depreciated bioenergy plants should be allowed as it guarantees the use of cleaner energy solutions and minimises the risk of re-decarbonisation.
5. The pace of decarbonisation of the heating sector must increase. The CEEAG should incentivise investments in clean and renewable heating solutions including district heating and cogeneration.
6. Essential innovations like bioenergy with carbon capture and storage and other biomass-based CO2 removal technologies are crucial for achieving the EU's ambition to become climate-neutral by 2050. The CEEAG should contain concrete instruments to support them.

Full alignment with the Renewable Energy Directive

The future of the bioenergy industry depends on the legal certainty and clarity of the regulatory framework. In this regard the key legal act providing such a framework is the Renewable Energy Directive. The CEEAG should mirror the Renewable Energy Directive (RED) regarding used definitions as well as status and criteria of sustainable biomass. Sustainability requirements must comply with RED provisions. The inclusion of any form of differentiation among RES technologies, for example by referring to 'zero air pollution renewable energy sources' is without precedence in the EU law. Deriving any legal consequences from such category is unacceptable for our sector. Moreover, air emissions from bioenergy installations are regulated under appropriate EU legislation, e.g. Ecodesign Regulation, Medium Combustion Plant Directive, Industrial Emissions Directive. Installations must comply with these requirements, regardless of whether they receive state aid or not.

In practical terms, the obligation to identify the curtailment of 'zero air pollution renewable energy sources' would provide an additional administrative burden on Transmission System Operators far beyond their role. Moreover, according to the Art. 13 paragraph 2 of the Electricity Market Regulation the redispatched capacities are supposed to be selected by the market-based mechanism and financially compensated, which provides a guarantee for rentability of operations of particular sources. Any measures like this would be in this context detrimental to the coherence of the EU law and principle of legal certainty. In the meantime, the wording should be based on existing legislation (2018/2001 EU). In principle, Bioenergy Europe considers also that any references to the EU Sustainable Finance Taxonomy would not be justified. Currently definitions of 'biodiversity', 'ecosystem', 'pollutant' as well as points 69 and 113 contain such references. It is not recommended to establish any link between the revised CEEAG and EU sustainable framework which has a different scope, as it aims at streamlining sustainable private sector investments and is a subject to a different legislative procedure.

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Permissive framework for bottom-up approach for state aid

A revised CEEAG framework must provide enough flexibility for Member States to design mechanisms and tools which will support the implementation of their energy policy strategies and choices while respecting internal market rules. Geographical conditions and resources, policy design as well as economic and social conditions differ between Member States, which is reflected in a different structure of their energy mix and different decarbonisation pathways. One of the means to achieve this would be the increase of the State aid notification thresholds regulated in Article 1(2) and recital (8) of the GBER for an annual support scheme and Article 4(1) (v) GBER concerning operation aid for renewable energy. Its application prolongs procedures and adds administrative burden stopping many projects. In the same way, existing notification obligations enshrined in paragraph 20 of EEAG (under the title 2 “Notifiable Environment and energy aid”) should be more flexible. Such changes would facilitate decarbonisation by incentivising more support for small and midscale projects.

As for competitive bidding mechanisms introduced in 2014, it is the design by default applying to renewables and high efficiency Combined Heat and Power (CHP) plants. This approach may be appropriate for large projects (wind, PV), but is much less suitable for high-efficiency CHP supplying both electricity and heat on local markets with operating costs that can vary greatly over the lifetime of an installation. As heat is a local product, facilities are localized in the proximity of the demand centres. Often one installation provides heat for the entire municipality. As a result, there might be a limited number of entities to participate in a bid. This often results in insufficient participants in the bidding competitive process. Therefore, Member States should still have the possibility to deviate from this scheme for support that may be granted to high-efficiency CHP installations.

Continuation of operational support for production of sustainable biofuels

Sustainable Biofuels play an important role in the decarbonisation of road, maritime, and airborne transport. Currently the RED II requires Member States not only to ensure sustainability and GHG reduction of biofuels, but also to set an obligation on fuel suppliers to achieve a share of at least 14% of renewable energy in the transport sector by 2030, including at least 3.5% of advanced biofuels and biogases. This value will inevitably rise to meet more ambitious renewable targets. The modelling of the Impact Assessment of the Climate Target Plan projects reaching 24% of renewable energy in the transport sector by 2030. Moreover, the total amount of liquid biofuels used in transport increases in the main policy scenarios, representing a share of 13-14%, compared to 10% in the baseline scenario. Today, the share of RES provides only 8.4% of the energy used in the transport sector⁶. The highest share within the EU is in Sweden – 30%, where biofuels provided an overwhelming majority of this value. Within the range of existing solutions, biofuels are cost-competitive and are ready to be used. Sustainably certified crop-based biofuels and bioliquids with verified GHG-reductions are an important element of the transition pathways of the several Member States. Therefore, it would be beneficial, if the revised guidelines would lift the limitation of support for such technologies set in paragraphs 113 and 121 of the existing framework. The aid for biofuels compliant with the sustainability criteria of the RED II should be

⁶Eurostat, <https://www.eea.europa.eu/data-and-maps/indicators/use-of-cleaner-and-alternative-fuels-2/assessment>

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incentivised, as it would increase the pace of decarbonization of the transport sector. Therefore, the assumption of paragraph 77 of the current draft, that negative effects of biofuel expansion outweigh the positive effects has to be questioned. Sustainable expansion of biofuels, especially for sectors that are hard to electrify such as freight, shipment and agricultural and forestry machinery, should be made possible in order to allow for timely GHG reductions. Additionally, paragraph 96 of the draft must be reviewed as the reference to a market price would require constant adjustment of an operating aid or tax reduction, thus causing severe insecurity for economic operators and impeding investment choices.

Continuation of 'operational aid' for existing bioenergy assets

Bioenergy is a highly competitive source of energy. Nevertheless, market dynamics in several Member States justifies the need of operational support for existing biopower and CHP plants. The lack of uniform carbon pricing across the entire economy, the persistence of fossil fuels subsidies, and low wholesale energy prices, marked by the phenomenon of negative prices, do not allow certain plants to be profitable. This situation has far-reaching consequences, for biomass fuelled power only and CHP plants which lose a bulk of revenue from electricity generation, and which are often the only existing provider of heat for communities.

We recommend that existing, depreciated assets should still be eligible to receive operational aid if this results in more sustainable and environmentally friendly choices of operators of installations. The existing EEAG framework provides the possibility for Member States to grant operating aid for existing biomass installations after depreciation (EEAG section 3.3.2.3). It should be guaranteed that in justified cases such installations could be granted aid to maintain their capacity for the future use in a way that avoids distortion in the energy market. In this regard, we advocate that point 30 c), which foresees the possibility to grant operating aid to existing assets, provided that it results in change to operate the installation in an environmentally friendly way, should explicitly refer to depreciated bioenergy assets. Lack of operating support for such installations may lead to re-decarbonisation. Such installations may provide also additional environmental services (e.g. valorization of material that would otherwise have been disposed, burned on the field, etc.) and on this basis continued operational aid could be justified even for depreciated plants.

Focus on the heating sector

The heating sector remains 80% dependent on fossil fuels. Therefore, it is necessary to incentivise a faster uptake of renewable solutions and the phase out of coal. In this regard, the role of bioenergy is crucial, as it is the main and most cost competitive source of renewable energy used in the heating sector and it has become an increasingly important source of heat for industrial processes.

Combined Heat and Power (CHP) and related district heating and cooling remain among the best technologies to improve energy efficiency, support massive integration of all types of renewables, and link heating with electricity providing more flexibility. For this reason, the current approach of State aid Guidelines, which allow investment aid both for the establishment of new Efficient DHC and the modernization of existing systems, must be continued and better adapted. For instance, under Article 46

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of the GBER, investment in systems that qualify as efficient is allowed, as defined under Article 2 (41) EED. However, in most cases, a series of investments may be needed to ensure that a non-efficient network qualifies as efficient. Member States should have the right to grant State aid to those networks and the article should be amended in that sense (i.e. introducing the possibility to grant aid for installations with long-term modernisation plans that will allow them to become efficient).

Incentives for negative emission technologies

The key role of the CEEAG is to provide an enabling framework for Member States to use public support for innovative clean technologies, which are not able to compete on the market. One of the emerging technologies is bioenergy combined with carbon capture and storage (BECCS) in its different forms, e.g. small scale biogas steam reforming or CCS in power plants. In order to balance the unavoidable emission, biomass based negative emission technologies must be implemented well ahead of 2050. The role of these solutions should be acknowledged in the CEEAG considering their importance for reaching net-zero emissions by 2050 or even earlier.