



energi för nästa generation

To  
European Commission  
Directorate-General for Competition  
Unit for State aids Energy and Environment

Consultation on state aid regulation  
From  
Swedish Bioenergy Association/Svenska Bioenergiföreningen (Svebio)  
Transparency Register ID 322184611436-49

## **Svebio's view on EU State aid regulation**

(also submitted to the Swedish government/Ministry of Enterprise)

### **Summary of our view**

*The detailed regulation of state aid that is proposed constitutes a regulation of the Member States' energy policies that is not in accordance with the Lisbon treaty. The Member States have the right to independently decide on their energy priorities.*

*It is desirable to better coordinate the steering measures in EU: the basis for the policy should be to put a price on carbon emissions through a strengthened emission trading scheme, and through common levels of carbon taxation for sectors and activities outside ETS. The steering measures should as far as possible be market based.*

*The Swedish government must first of all safeguard that Sweden also in the future may use functioning general incentives like carbon tax, renewable electricity certificates, and tax deductions. These incentives have been very successful and given Sweden a leading position in EU when it comes to renewable energy, with a 51 percent share, at a low cost.*

*The state aid rules should be technology neutral. The prohibition of support for crop-based biofuels must be removed, and there should be no restrictions against using biomass as energy feedstock. The negativism against bioenergy in the document is disturbing.*

*More generous support should be given to the construction of grids for district heating and district cooling, under the condition that these grids are used with energy from biomass, waste or waste water from industries or CHP:s. Support for CCS should only be given as part of the emission trading scheme. State aid to nuclear power should be prohibited.*





energi för nästa generation

## **About incentives in general**

Svebio favours general, long-term and stable incentives and support measures based on the polluter pays principle (PPP). It is important to put a high price on all emissions of carbon dioxide from the use of fossil fuels.

Sweden should therefore in EU primarily work for a well-functioning system for emission trading, and for the introduction of carbon taxes in all sectors outside the ETS. A first step should be to adopt a new and more stringent energy taxation directive.

The target must be to reach a high cost for the emissions of carbon dioxide, in order to reduce the emissions quickly, through energy efficiency and conversion to renewable energy sources. With a high carbon price there will also be a pressure to promote technical development. EU in conjunction, and the individual member states must on top of that give direct support to research and development, in order to bring forward new solutions that can further reduce the emissions in the longer perspective.

With his strategy one can avoid to give direct subsidies to renewable energy and energy efficiency measures. Direct subsidies to individual companies, both for investments and for running costs, should be avoided. There are many disadvantages with direct subsidies, like unfair competition and negative “stop-and-go-effects”. With this background, we are in general positive to the general direction of the proposals from the Commission, to reduce the direct supports.

However, in the short run certain direct supports may be motivated, until the higher price level of carbon emissions has been established, and to introduce new technologies in markets where these solutions have not yet penetrated. The rules in these cases need to be simple and transparent. The type of support that may be called for are:

- Investment grants keeping down initial capital costs.
- Investments in long-term infrastructure, like district heating grids and electric power lines and cables.

## **Sweden's priority**

When the revision of the state aid rules are analysed from a Swedish perspective we have to value how these changes will affect the current Swedish incentives.

The most important issues are how the changes might affect:

- The carbon dioxide taxes
- The green electricity certificates
- The tax deduction for biofuels (in place for high blends and pure biofuels)
- The quota system for low-blend biofuels
- The future possibilities to support new installations for biofuels production – mainly for second generation projects.

As Sweden has a partly different system compared to most EU member countries, and because we primarily rely on strong general incentives, and as we do not use feed-in tariffs, it is important to safe-guard our possibility to continue such a policy, not the least as this line of policy has proven to be very successful, and enabled Sweden to reach over 50 percent renewable energy, the highest share in EU. Sweden must not hesitate to promote “the Swedish model”.





energi för nästa generation

It is therefore important to strictly stick to the Lisbon treaty articles 191 – 194. Article 194 clearly defines that the individual Member State has a right to determine its own energy policy, to decide conditions for how it wants to utilise its energy sources, to make a choice between energy sources, and to decide about the structure of its energy supply.

The proposal for state aid, in many respects goes beyond the treaty, and goes far beyond what is necessary to guarantee that no undue state aid is given. The proposal also leads to detailed regulation from EU level at an unmotivated scale. Although it is urgent to better coordinate incentives between the member states, this must take place primarily through general and common measures, like emission trading and carbon taxation, in order to reduce direct subsidies.

### **Comments on individual proposals**

**114 (third sentence) and 117.** Should be deleted.

There is no reason to exclude certain biofuels from support. And it is not appropriate to do this in the state aid rules. There is also no need to point out that after a certain date only certain advanced biofuels should have support, for the following reasons:

- The position is unfounded and unmotivated. There should be no division between so called conventional and so called advanced biofuels. Both types of biofuels will be needed to replace fossil transport fuels, and the choice of biofuel pathways should be determined based on environmental and economic considerations regardless of prejudice, where one or the other is considered superior or inferior beforehand. Sustainability issues for biomass feedstock must be handled in the frameworks specifically designed for that purpose, like the sustainability criteria in RED and, in Sweden, the law for sustainability for biofuels. Not in the state aid regulation.
- A recent scientific report shows that 52,5 million hectares of unused arable land are available in East and Central Europe, primarily in Russia, Ukraine, Belorussia, the Baltic States, east Poland and Romania. This farmland area far exceeds the area used today for energy crops for biofuels. It is just an example of the large resources available for increased production of crop-based biofuels.
- It cannot be the purpose of the state aid rules to brand or exclude specific technologies. This is contrary to the principle of technology neutrality that is advocated elsewhere in the proposal.
- In no other case than biofuels is this done in the proposal.

**119.** The division between deployed and less deployed technologies is not an appropriate basis for accepting or denying state aid, and the article should be deleted. The basis for considering a technology deployed is its market share on EU level (1 – 3 percent). Instead a specification based on market maturity could be used (market mature or less market mature). Definitions have been developed by the European Investment Bank.

If the proposal is accepted the effect can be that member states will be denied to give public support to a certain technology because it is already widespread in another part of the Union. One example could be the renewable heat incentive in U K, which could be disqualified because there is a large deployment of and share of biomass-based heating in Northern Europe, France, Germany and the Alp region. This despite the fact that biomass heating with modern technology is less developed and spread in U K.





energi för nästa generation

Within the bioenergy sector there are numerous fuels and technologies, in comparison to wind-power and solar power, where one technical solution is predominant. In the bioenergy sector it will therefore be very difficult to determine which installations would be considered using “deployed” or “less deployed” technologies.

By using general incentives these kinds of issues can be avoided.

**120b, second sentence, and 129b.** These paragraphs should be deleted. It is not appropriate to have special rules about feedstock in the state rules, and it is disturbing that biomass use for energy is specifically mentioned as a problem. The Swedish experience is that this is solved by the parties on the market. The regulation means introducing an element of planned economy for the raw material use in the bio product sector.

**128.** We welcome that the Commission identifies the certificate system as a favoured solution, but we have doubts about the possibility to identify “overcompensation” in such a system. The price level for the certificates is decided on a free market, and a result of supply and demand, and the only way to regulate the price is to change the quotas (increase or lower the demand). This kind of manipulation of the market can only be done at certain intervals, at “control stations”, otherwise the free market is disturbed, and the traders will lose confidence in the system. If “overcompensation” periodically occurs in the system, this will be remedied by increased investments, which will be a result of the higher price. These investments, in turn, will lower the price and erase the overcompensation.

**123, 131, and Annex 1.** We are reluctant to allow different rules for small and large installations, as well as higher support levels for smaller installations. In our view this should be up to the market, and the industry should invest in the solutions that are most economical, regardless of size.

**132 – 134, and 137.** Here is once again regulation directed against the use of crops for biofuels. Using the same arguments as above, we think these limitations should be taken away. The member states can decide what resources are available for increased cropping and use of energy crops. The Commission has not presented any proof that the use of energy crops has created environmental problems or negatively affected the supply of food. The sustainability criteria in RED are sufficient to guarantee sustainability of biofuels.

One should be aware that an artificial legal division between starch, oil, and sugar feedstock on one hand, and cellulosic feedstock on the other hand may give unwanted effects. The proposed regulation may lead to growing of less productive grass crops (because they are cellulosic) instead of more productive grains, or lead to forest plantation of large areas of farmland, which leads to loss of mosaic landscapes, and decreased biodiversity. The issue of how to use abandoned and marginal farmlands in Europe has not been analysed by the Commission.

**5.3 Energy efficiency , CHP and district heating.** This is an area where targeted support may be needed, also in the short run before a higher carbon emission price has been established through a common carbon dioxide tax.

Support to infrastructure should have priority – building grids for district heating and cooling. Support may also be needed for CHP, in particular for such using biomass and waste, because these have higher investment cost than CHP:s using natural gas. The text should include sentences about heating and cooling grids.

We question the line in Annex 1: “Aid for district heating and cooling using conventional energy”. The line should read: “Aid for district heating and cooling using biomass and waste”. When the district heating systems are expanded, they should use biomass and waste. Support for district heating infrastructure should be allowed at the same level as support for other infrastructure (electricity and gas).





energi för nästa generation

**5.5 Support for CCS.** We do not believe that CCS is a credible solution to reduce emissions from fossil fuel combustion, primarily of economic reasons. We are opposed to support for this technology at 100 percent level, apart from research support. In a system with functioning carbon emission pricing, CCS should be financed by the market and within ETS, to guarantee that this technology competes on equal terms with other solutions for emissions reduction.

We note that no opening is given for support to new nuclear power. That's good. Nuclear power is, with the terminology of the Commission, a "deployed" technology and should compete on equal terms on the market, including its full insurance costs.

Svebio, Swedish Bioenergy Association

Gustav Melin  
CEO

Kjell Andersson  
Policy manager

