

Position Paper on EU Climate and Energy Policy Beyond 2020

This document is prepared as the joint position of OGP (International Association of Oil and Gas Producers) and EUROPIA (representing the European Petroleum Industry) as a contribution to the debate about the EU's post 2020 Climate and Energy Policies.

GENERAL PRINCIPLES

Our Associations agree with the trio of energy and climate policy objectives: security of supply, sustainability and affordability of energy prices supporting industrial competitiveness and societal quality of life. We believe that trade-offs among the objectives must be openly addressed, and the current emphasis of policies re-balanced: future policy choices should ensure that equal weight is given to all three objectives.

Our Associations welcome the adoption, in October 2012, of the Industrial Policy Communication Update and its emphasis on the importance of placing industry centre-stage if the EU is to remain a global economic leader. While calling for a proactive EU industrial policy, the Commission stressed that this leadership objective can only be met in the presence of a performing pan-European energy infrastructure, completion of the internal market for gas and electricity and competitive energy prices. The integrated EU energy and industry policy aims to put competitiveness and sustainability on an equal footing.

Climate and energy policies and instruments, both at national and EU level, should avoid multiple regulations for the same target, if the EU is to avoid excessive complexity and regulatory burden for industry with associated unintended consequences. They should be technology neutral to maximise innovation through market competition, while keeping costs to a minimum, transparent and predictable in their impacts to ensure the necessary stability for industrial investment.

It is essential that all of society contributes equitably to the achievement of emissions reductions. An EU framework should promote consistent abatement costs across the economy.

Concerning international action, the EU represents just over 10% of global emissions. This share is declining. Therefore, we agree with the Commission that these facts underscore the need for action by all countries. Raising the level of ambition in future EU climate policy should be explicitly made conditional on measurable and equitable commitments by at least the US, China and other significant economies. Further EU unilateral action will have little or no impact on global emissions, and will increase carbon leakage that is already a major issue for industrial sectors in particular. Unless global engagement is achieved, addressing carbon leakage in industrial sectors must continue to be a key consideration for the EU's post-2020 climate policy framework.

Last but not least, we urge the Commission to ensure that all climate and energy policy proposals are accompanied by a transparent, independently verified and thorough impact assessment which identifies intended and potential unintended consequences. As suggested by the 2050 Energy Roadmap independent expert group, scenario modelling, which provides the basis of policy making, should likewise be conducted in a transparent manner with assumptions made available to the public.

Closer engagement with all stakeholders, including industry, during the early policy formulation period would bring huge added benefit to the EU and its stakeholders.

Bearing in mind the challenging EU greenhouse gas (GHG) emissions reduction target of 80-95% (1990 base year) by 2050 (as agreed by the European Council in the context of necessary reductions by developed countries as a group), and the requirements for long-term investments in energy infrastructure, industry needs a clear and stable post-2020 policy framework.

Our Associations are convinced that EU policy post 2020 and beyond should directly address and support the three agreed primary objectives of security of supply, sustainability and economic competitiveness:

1. **Sustainability** and climate protection should focus on the GHG emissions reduction objective as opposed to incentivising a particular low-carbon energy mix. However, we recognise that there is a need to support the deployment of low-carbon technologies, but only under the conditions detailed later in this paper.
2. **To preserve competitiveness in the absence of global engagement**, EU policy must carefully address carbon leakage, to ensure affordability for EU society.
3. **Security of supply** must be assisted by the completion of the internal energy market. The contribution of EU internal resources, current and potential, EU refining capacity and manufacturing must be taken into account.

The main focus of future climate policy should be on emissions reduction as opposed to setting specific targets for the energy mix and for energy consumption. The Oil & Gas industry calls on the EU to adopt a single, transparent, cost effective, long-term trajectory for carbon abatement, which is shared economy-wide and accepted by society.

Our Associations are ready to engage in a dialogue with the Commission in order to identify milestones for post-2020. Any such GHG target should be set under the following conditions:

- A single instrument applying to the electricity and industrial sectors, including our oil and gas industries:
- This instrument should not overlap with other measures for renewables and energy efficiency.
- It should be technology-neutral to maximise innovation through market competition.
- Support is required to bring promising low-carbon technologies through the R&D phase. However, in our view, once supply sources reach the commercialisation phase, all energy sources should be integrated into the market under normal market conditions, without production or consumption subsidies.
- Other non-industrial sectors need to contribute using the most appropriate instruments.
- While recognising and supporting the EU's desired global leadership role in promoting GHG reduction, the EU's own ambitions should take account of the differing pace of commitments by other countries. This is to ensure that EU competitiveness is maintained.

Unless there are worldwide parallel efforts on carbon abatement, EU policy must carefully address carbon leakage and avoid overburdening EU society. A single GHG reduction instrument, rather than the current multiple and overlapping target regime, is the most appropriate for industry, including electricity generation: 20/20/20 should not be followed by an analogous system of multiple targets.

A SINGLE, EU-WIDE GHG EMISSIONS REDUCTION MECHANISM FOR ELECTRICITY AND INDUSTRY

Our Associations believe that market mechanisms can bring about GHG emissions reduction at the lowest cost to society, and thus call for a single EU-wide emissions reduction mechanism to remain as the central climate policy measure after 2020. The system should be clear, simple and predictable with rules for future adjustments, if any, clearly and explicitly laid out. The credibility of the system will also depend on its robustness against politically-motivated intervention.

EUROPIA and OGP Association members support emissions trading as an effective market mechanism. An appropriate market-based compensation scheme must remain in place to protect EU industry from carbon leakage effects.

This central climate policy measure should be complemented by other policy measures for GHG emissions reduction that address those sectors of society or the economy, such as the transport and the building sectors, where the application of the central market-based instrument would be excessively costly or ineffective, where economic or market signals are insufficient to facilitate progress or where it is impractical for the emitter to be the regulated party. Such complementary measures should avoid overlap with the central GHG reduction scheme. Convergence of the price placed on emissions across the entire economy should be pursued.

Our Associations consider that the proposed structural measures in the Commission's Carbon Markets Report of 14 November 2012 for the EU ETS do not specifically address emissions post-2020. We would welcome further proposals from the Commission that will address the whole EU economy - including the ETS and non-ETS sectors – in the post 2020 context.

RENEWABLES, ENERGY EFFICIENCY AND OTHER INNOVATIVE TECHNOLOGIES (INCLUDING CCS)

The current mandatory renewables target has been distorting the carbon price signal within the EU ETS and has crowded out more cost-effective means of GHG reduction. Therefore, our Associations do not support targets for renewables post-2020, particularly if they overlap with the central carbon abatement mechanism. The European Commission's Energy Roadmap 2050 Communication has also demonstrated that a technology-neutral approach is the most cost-effective. The cost of meeting the longer-term targets is of prime importance: over-expensive policies resulting from focusing on deployment of specific technologies, rather than taking a carbon reduction approach as the driver of ambition, will put an excessive burden on society by misdirecting scarce resources.

We recognise the need to support R&D to bring promising low-carbon technologies to the market, but all energy sources should be integrated into the market under normal market conditions, without subsidies (including system connection, balancing cost and exposure to price risk) as soon as possible. In fact, production subsidies¹ for all fuels should be phased out. In doing this, cost-effective renewables will compete with conventional energy sources, and a level playing field amongst low-carbon and other energy sources will be achieved via the carbon price.

¹ EUROPIA and OGP do not accept the concept of tax reliefs as "subsidies" particularly when associated with tax regimes and rates significantly in excess of those levied on other industries. The deduction of business expenditures for tax purposes is a fundamental part of a normal tax regime.

Future renewable energy sources and future energy efficiency gains largely depend on technology development. Our Associations believe that a substantially increased R&D and innovation financing scheme is likely to bring faster and more significant results, than current renewables production support regimes. In addition, this approach will also be more cost-effective and will promote a more competitive EU through R&D. Within a robust long-term market mechanism for emissions reduction, the carbon price and recycled auction revenues can also contribute funding for R&D.

Our Associations strongly believe that there is also potential for improvement in energy use by both end users and other sectors - even where energy costs are a small proportion of operating costs. Such consumers may not respond to economic or market signals, and may need facilitating measures to promote progress. Future policies should first focus on these consumers, where progress can potentially be made at negative or low cost without overlapping with the EU-wide carbon reduction instrument (EU ETS). Better energy efficiency will help to conserve resources and to improve international competitiveness, as well as reducing the EU's greenhouse gas emissions.

THE FUTURE ROLE OF OIL & GAS

Most forecasters show oil and gas continuing to have a significant global role far beyond 2020. Our Associations only seek equal treatment with other sectors inside, and competitors outside, the EU. In a free market the cost of carbon is taken equally into account across all technologies and fuels, including coal, oil, gas and biofuels as well as electricity. Oil and gas must be able to compete in such a market on their physical, technological, economic and environmental features.

In considering electrification, the EU's future climate and energy policy should take into account both the advantages, but also the limitations of an electricity-based energy system. An increased use of natural gas would be extremely beneficial to reducing overall EU emissions, particularly by replacing coal in the EU electricity generation sector. However, forced conversion from gas to renewable energy sources in electricity generation and heating has physical constraints, economic barriers and implications in terms of system balancing and reliability. Similarly, changing the fuel mix of transport from liquid fuels to electricity faces challenges in terms of technology, economic viability and access to scarce raw materials (e.g. rare earths) for batteries and motors. Despite the emergence of alternative energy sources (such as electricity), liquid fuels will continue to play an important role, particularly in providing range for mobility, because of their unmatched high energy density. These challenges have not been solved especially for long distance transport.

In addition, when considering the taxation of energy, all fuels (coal, oil, gas, and biofuels) and electricity should be taxed proportionately to their energy content. If carbon content is to be used as a criterion, then the tax should be consistent with the ETS market price. This would create a level playing field between non-ETS and ETS sectors, as well as between different fuels. Any taxation policy aimed at lowering the carbon content of transportation fuels should be implemented using the same principles and carbon price across the economy.

Within EU Climate and Energy Policy beyond 2020, both oil and natural gas should have the opportunity to compete as long-term cost-efficient energy sources in the energy mix, with natural gas having a particular role in the transition to a low carbon economy through substitution of coal, providing flexible generation and back-up for variable renewable energy sources. Both fuels are necessary to securing the stability and balance of the future energy system.

EUROPIA represents the European Petroleum industry, the downstream sector of Europe's oil industry.

EUROPIA is an organisation whose 42 members account for almost 100% of EU petroleum refining capacity and over 75% of EU motor fuel retail sales.

EUROPIA as a leading Industry Representative aims at contributing pro-actively and constructively to the development of policies to safeguard the secure and sustainable manufacturing, supply and use of petroleum products by providing competent and expert advice to the EU Institutions, Member State Governments and the wider community.

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OGP (International Association of Oil & Gas Producers), established in 1974, has currently over 70 members which represent most of the world's leading publicly-traded, private and state-owned oil & gas companies, industry associations and major upstream service companies. OGP members produce more than half the world's oil and about one third of its gas. OGP's mission is to provide a forum for sharing experiences, debating emerging issues and establishing common ground to promote co-operation, consistency and effectiveness in every aspect of health, safety, the environment, security, social responsibility, engineering and operations.

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