International Association of Oil & Gas Producers

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IOGP FEEDBACK TO THE IMPACT INCEPTION ASSESSMENT

"2030 Climate Target Plan"

General remarks

The International Association of Oil & Gas Producers' (IOGP) member companies account for approximately 90% of oil and gas produced in Europe. IOGP shares the world's ambition to reach the Paris Agreement's goals and supports the EU's objective of climate neutrality by 2050. There are many challenges on the road to meet this objective as the energy transition will require significant investments, new technologies, effective policies and behavioural changes.

The EU 2030 and 2050 GHG reduction targets need to be accompanied by an enabling and coherent policy framework that provides a business case to invest in the low-carbon technologies needed to deliver the ambitious objectives. EU policies, including EU financing and funding mechanisms, should, therefore, facilitate a cost-efficient energy transition while ensuring that no one is left behind. It is also essential that EU policies provide a predictable investment climate and security for investors and the real economy actors as their decisions are based on the long-term investment cycles.

Current climate targets for 2030 are the results of intensive negotiations and their implementation requires each Member State to bear the costs specified in the impact assessments accompanying the ETS Directive, RED II, EED or "Clean Planet for All". Any change to the current targets will involve a detailed assessment of all these policy tools. **We, therefore, support the Commission's intent to take a holistic approach towards the impact assessment of the "2030 Climate Target Plan" as it is of utmost importance to ensure complementarity between different legislative instruments while avoiding any overlap.**

As stakeholder input across all industries will ensure a practical pathway for implementation and avoid unintended consequences and inefficiencies, **IOGP welcomes the opportunity to provide our initial feedback to the Impact Inception Assessment "2030 Climate Target Plan", and encourage the Commission to consider the following recommendations:**

1) International context should be considered in the upcoming impact assessment

Addressing climate change requires commitment from all emitters worldwide, as well as global cooperation among countries and regions. **IOGP would like to stress the importance of international cooperation, in particular by effective implementation of Article 6 of the Paris Agreement.** Internationally linked carbon pricing will increase global ambition to combat climate change while maintaining EU economic competitiveness and avoiding carbon leakage. Such an approach offers the most efficient and cost-effective policy approach to reducing emissions and should be the primary policy tool used to achieve climate ambitions.

2) National plans should be considered as the main input in the development of the impact assessment

The Regulation on the Governance of the energy union and climate action requires from Member States to submit their National energy and climate plans (NECPs) to the European Commission. NECPs established a unique system to ensure that the EU and its Member States can plan together and fulfil collectively the agreed 2030 targets. These plans provide

a good overview of measures and policies that will be implemented at national levels in the context of the 2030 targets, with a perspective towards the 2050 carbon-neutrality objective. **We, therefore, recommend the Commission's impact assessment reflects these various measures in the impact assessment.**

3) Reviving the EU economy and industry post-COVID-19 while reducing emissions should be the backbone of the upcoming impact assessment

The COVID-19 outbreak has unleashed an unprecedented socio-economic crisis in Europe, and globally, which is affecting all citizens and all economic activities. Despite the current market conditions, our companies are directly engaged in fighting the COVID-19, for example by supporting hospitals and healthcare workers by supplying free fuel, medical equipment, supercomputer calculation capacity and ramping up the production of chemicals used in the hand sanitizers[1]. As our industry stays engaged in these shorter-term efforts, **we welcome the Commission's efforts to develop a coordinated exit strategy and a comprehensive recovery plan which should also be taken into account in the impact assessment.**

While the crisis is first and foremost human, the economic consequences loom large and raise several questions around Europe's future strategic industrial capacity. Without industrial activity in Europe, there will not be any future economic recovery and growth. In this context, **the carbon and investment leakage risk should also be integrated into the Commission's assessment.** The European industry players contribute significantly to finding solutions to mitigate GHG emissions and to reach the EU climate targets. Offshoring industry would not only have a serious impact on Europe's prosperity but would also have negative effects on the overall climate as the production processes would be shifted to other world regions where climate and environmental standards are less ambitious. Focusing solely on the EU industry's emissions from manufacturing products, while ignoring the "consumed" emissions in the EU through importing goods and services, might lead to a distorted representation of the EU's total emissions while increasing actual emissions. Therefore, we encourage the Commission to consider these elements in its impact assessment.

4) There is no silver bullet to achieve the 2030 climate targets: all solutions & carriers should be taken into account

Future EU policies should support Member States in their decarbonisation efforts and recognise the crucial role of all technologies in transitioning to a lower carbon economy:

a) Consider the advantages and versatility of natural gas in the scenarios

In their National Energy & Climate Plans, several Member States have announced the phase-out of coal from their energy mix, referring to a shift from coal to gas as one of the main solutions to reach their 2030 greenhouse gas emission reduction targets[2] as natural gas emits 50% less CO_2 than coal (and even more than 2/3rd less compared to lignite) when used in power generation[3].

Already today, coal-to-gas switching has helped to reduce EU greenhouse gas emissions. For example, German fossil fuel plants emitted 33% less CO_2 in June 2019 compared to the same month in 2018 due to a market-driven fuel switch from coal to gas[4]. This follows the UK's example of a fuel switch away from coal to gas and an increasingly lower-carbon electricity mix. **The EU should be pragmatic in making use of the cost-efficient emission reductions provided by fuel switching in power generation.**

Natural gas can be also used as a source of energy for heating. Efficient gas boilers can replace old coal-based furnaces leading to reduction of CO_2, NO_X, SO_X and PM emissions. Moreover, in the areas with no access to the national gas distribution network, liquefied natural gas (LNG) can be supplied to regasification stations that feed off-grid 'island' gas networks.

[1] An overview of actions undertaken by our members is available here: https://www.oilandgaseurope.org/news/covid-19-updates-industry-response-and-impact/
[2] See IOGP analysis of NECPs: https://www.oilandgaseurope.org/wp-content/uploads/2020/04/NECPs-Factsheet-v2.pdf
[3] International Energy Agency, CO2 emissions from fuel combustion, page 53. http://wds.iea.org/wds/pdf/documentation_co2_2012.pdf
[4] See Fraienhofer ISE – Energy Charts (2019): https://www.ise.fraunhofer.de/de/presse-und-medien/news/2019/33-prozent-weniger-co2-emissionen-durch-brennstoffwechsel-von-kohle-auf-gas.html

Natural gas (CNG and LNG) can also contribute to the EU's efforts in reducing emissions from transport. Gas can help the shipping industry meet more stringent emissions targets set by the 2020 IMO regulations. Using liquefied natural gas (LNG) as a marine transport fuel can reduce SOx emissions by 100%,[5] NOx by 80-90% and CO_2 emissions by up to 21%[6]. Moreover, natural gas can increasingly be decarbonized by e.g. deploying CC(U)S, pyrolysis, increasing the share of hydrogen and bio-methane (also see below).

We recommend that the models used in the impact assessment take into account cost-effective options of retrofitting existing infrastructure as long-term decarbonisation solutions (for example: coal-fired power and heating plants could be switched to gas, and afterwards to hydrogen or CCS; gas pipelines could be modified to transport hydrogen and CO_2).

b) Strengthen the use of carbon management technologies and all carbon-neutral energy carriers

As acknowledged by the Commission in its Green Deal Communication and the European Parliament's own initiative reports on the Green Deal and COP25, carbon removal solutions will be essential for the decarbonisation of energy-intensive industries and reaching the Paris Agreement objectives. Only by taking this inclusive and technology-neutral approach, the EU will ensure the most cost-effective and socially just transition by 2030 and beyond.

The policy tools enabling the achievement of 2030 climate targets should help accelerate the pre-commercial demonstration and deployment of key low-carbon technologies. They should be underpinned by market-based economy-wide carbon pricing and adopt a technology-neutral approach to drive the most cost-efficient and cost-effective decarbonisation. The future policies should encourage investment in renewable and low-carbon gases (such as all forms of clean hydrogen, biogas, biomethane), and include policy support for carbon management technologies such as nature-based solutions, CCS (carbon capture and storage) and CCU (carbon capture utilization). **We encourage the European Commission to include all these solutions into the impact assessment as without them the achievement of even more ambitious targets for 2030 (50 or 55%) is not realistic. Further action is needed now for these technologies to reach commercialisation at scale in time to achieve deep decarbonisation later this century, according to the IPCC and IEA.**

Investments in a broad range of low-carbon technologies can create new jobs. For example, if CCS is deployed at a wide scale, **there is potential for 150.000 direct and indirect jobs in 2050[7]. CCS in Europe could also support the development of a hydrogen economy while providing up to 5.4 million jobs by 2050[8], as well as the retention of existing jobs in energy-intensive industries**[9]. In their National Energy & Climate Plans, 12 Member States foresee a role for CCS, whereas as many as 22 foresee a role for hydrogen in meeting their decarbonisation objectives[10]. The IOGP-coordinated report *"The potential for CCS and CCU in Europe"* includes further policy recommendations for realising CCS and CCU value chains in Europe – these could also be considered by the Commission in the modelling exercise.[11]

With 17 industry actors from the oil and gas, gas transmission and hydrogen sectors (e.g. HydrogenEurope), IOGP is participating in the *"Hydrogen for Europe"* study. *"Hydrogen for Europe"* is a research project, carried out over the course of 2020 by research institutes IFPEN and SINTEF and project managed by Deloitte. The aim is to assess **how clean hydrogen can contribute to reaching climate neutrality in Europe and the milestones on the path to carbon neutrality.** *Hydrogen for Europe* will provide valuable input for the identification of decarbonisation options for the European industry and the potential for new, high-skilled jobs. **We would be happy to facilitate the dialogue between the research institutes and the Commission's experts working on the modelling exercise**. Furthermore, we are currently, together with Oslo-based consultancy Carbon Limits and our member companies, working on a project to map the reuse potential of European offshore oil and gas infrastructure for CO_2 and hydrogen transportation.

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[5] See UMAS (2018): LNG as a marine fuel in the EU. https://u-mas.co.uk/LinkClick.aspx?fileticket=yVGOF-ct68s%3D&portalid=0

[6] Jingjing Xu, David Testa & Proshanto K. Mukherjee (2015) The Use of LNG as a Marine Fuel: The International Regulatory Framework, Ocean Development & International Law, 46:3, 225-240, DOI: 10.1080/00908320.2015.1054744; 'Life Cycle GHG Emission Study on the Use of LNG as Marine Fuel' https://info.thinkstep.com/lng-ghg-study

[7] SINTEF (2018): *Industrial opportunities and employment prospects in large-scale CO_2 management in Norway*. Available from: https://www.nho.no/contentassets/e41282b08ceb49f18b63d0f4cc9c5270/industrial-opportunities-ccs_english.pdf

[8] FCH JU (2019): *Hydrogen Roadmap Europe*. Available from: https://www.fch.europa.eu/sites/default/files/Hydrogen%20Roadmap%20Europe_Report.pdf

[9] High-Level Group on Energy-intensive industries (2019): *Masterplan for a Competitive Transformation of EU Energy-intensive Industries Enabling a Climate-neutral Circular Economy by 2050*. Available from: https://ec.europa.eu/docsroom/documents/38403

[10] See IOGP analysis of NECPs: https://www.oilandgaseurope.org/wp-content/uploads/2020/04/NECPs-Factsheet-v2.pdf

[11] IOGP (2019): *The potential for CCS and CCU in Europe*. Available from: https://ec.europa.eu/info/sites/info/files/iogp_-_report_-_ccs_ccu.pdf.
IOGP (2020): IOGP policy matrix: key recommendations on CCS in the current and future EU legislative framework Available from: https://www.oilandgaseurope.org/wp-content/uploads/2020/04/CCS-in-the-current-and-future-EU-legislation-paper.pdf

5) Involvement of stakeholders throughout the process and social aspects are needed to ensure a successful implementation of policies

We strongly support the Commission's Better Regulation's principle to consider the contributions of citizens and stakeholders throughout the policy and law-making process. To facilitate a more consultative and inclusive process, **we encourage the Commission to organise a set of webinars to present the assumptions used in the modelling exercise to stakeholders and Member States.**

In line with the Better Regulation guidelines, thorough and transparent evaluations and impact assessments need to ensure that all objectives[12] are being assessed. As pointed out by the Commission's In-Depth Analysis accompanying the Long-Term Strategy, a shift away from fossil fuels could have a significant impact on the overall employment in the energy sector - this should be further impact-assessed to prepare for a socially acceptable and just transition. It is critical that policymakers ensure that the costs, benefits, and potential trade-offs of policy options are transparently and clearly communicated and understood by the public. This is required to ensure continued long-term democratic support for addressing climate change and to enable a just transition.

Upon the finalisation of the impact assessment, the underlying assumptions, results and models should be published in the public domain in their entirety to ensure a transparent and informed public debate on the costs and benefits of revised 2030 targets on all stakeholders. These results could be also used by the industry players in their internal analysis/ forecasts/scenarios. This level of transparency will help ensure the EU institutions deliver the best value for taxpayers' money. **Transparency is a prerequisite for data-driven policymaking and is essential to create the most efficient and effective solutions to addressing climate change.**

Conclusions

The European upstream oil and gas industry shares the world's ambition to reach the Paris Agreement's goals and supports the EU's objective of climate neutrality by 2050. To turn this into a success story for each citizen, every Member State and the EU as a whole, we need to create the right enabling conditions and incentives for the coming decades. To ensure a just transition, where truly no one is left behind, adequate EU level funding, flexibility and realistic goals have to be set and transparently communicate to the public.

Therefore, we encourage the Commission to consider the following points for effective climate action to get to 2030 and beyond:

- Work towards a global action to address the climate challenge through e.g. a well-designed, economy-wide carbon price, internationally linked via Article 6.
- Focus on enabling and coherent policies to deliver the 2030 targets that will guarantee a stable and predictable investment climate.
- Incorporate a strong economic pillar to avoid carbon/investment leakage or offshoring industry.
- Consider all fuels and technologies to achieve the EU targets while ensuring just and affordable energy for citizens and the industry.
- Disclose policy assumptions and results of the modelling exercise such as costs, benefits, and potential trade-offs.

The European upstream oil and gas industry stands ready to provide further input to the upcoming consultations and play its role in delivering low-carbon solutions aimed at tackling climate change.

[12] E.g. the wellbeing of citizens, the prosperity of society, the competitiveness of the economy, energy efficiency and security, health, protection of vulnerable consumers, fairness and solidarity across society and regions.