

**OMV POSITION:
GREEN PAPER ON A 2030 FRAMEWORK FOR CLIMATE AND ENERGY POLICIES**

General Remarks

- ▶ OMV is committed to contributing to the achievement of the goals foreseen by the EU Energy and Climate package. However, it is necessary to ensure that the cornerstones of these policies (EU ETS, CO₂ reduction targets and the goals in the field of renewable energies) **are suitable, economically feasible and at the lowest cost for society.**
- ▶ A strong industry is the **backbone of every economy** and provides economic growth and jobs. However, the ongoing **economic crisis** and the **existing heavy financial burdens incurred from increasing regulations** (particularly regarding energy and climate change aspects) are **seriously harming the competitiveness of the EU's industry.** Hence a **realistic policy approach along with the appropriate regulatory framework – based on social, economic and ecological realities** – is necessary in order to encourage cost-efficient as well as economically sensible investments by European companies within Europe rather than abroad. **Regulations** that hinder vital new investments in Europe and thereby jeopardize growth and employment **should be subject to a competitiveness proofing.**
- ▶ In order to enhance **competitiveness** and to regain a **level global playing field**, industry needs a **clear and attractive policy framework** that offers planning certainty and stimulates investments by European companies in Europe. To ensure that the future development of energy and climate policy targets for 2030 proceeds in the right direction, the efficacy of existing instruments needs to be examined and, if necessary, corrected.
- ▶ A **well-balanced European energy mix**, and the **recognition that oil and gas will remain of strategic importance**, are further crucial to Europe's economic success. This will ensure a secure energy supply and constitutes a motor for growth, jobs and innovation.

Objectives and Targets in the Climate and Energy Policy

- ▶ First of all, OMV highly welcomes the **initiative of the Commission ("Europe 2020") recognizing the need to re-industrialize Europe** (increase the share of GDP from a current level of 16% to 20%). In this context, **the Green Paper's acknowledgement of the importance of European competitiveness**, as well as the **consideration of the modified economic landscape** since the original energy and climate change package was adopted, are much appreciated.

- ▶ However, it must be stated that the ambitious emissions reductions targets cannot be reached single-handedly by the EU, and they are further complicated by overlapping instruments and partially conflicting targets. In this regard, three binding targets for 2030 that potentially undermine each other do not seem to be an adequate solution. **An internationally aligned climate policy** with binding content and goals for all countries and industry sectors is **a precondition** for successfully protecting the climate and preventing a shift of emissions to non-Member States. Furthermore, as an economy following a CO₂ emissions target has a clear disadvantage compared to countries without such a goal, a **global emission trading scheme** needs to be set up for every country.
- ▶ In this context, the impact of **natural gas**, which according to the International Energy Agency has the potential to become the **most important energy source in Europe by 2025**, needs to be considered. Gas is the **cleanest** source of fossil fuel, and generates the **lowest output of CO₂ emissions** of all fossil energy sources. It also has **high long-term availability** and the necessary **infrastructure is already in place**. Due to its flexibility, gas is able to compensate for the inherent intermittency of renewable energy sources and is therefore the perfect partner for renewable energy. As stated by Commissioner Oettinger, **the gas industry needs a vision**. Consequently, this vision must have a basis in European Commission documents and there must be a clear political commitment that gas is THE key enabler of a reduction in CO₂ emissions in combination with renewables. In the US, for example, Shale Gas has replaced coal in power generation, which has led to lower energy prices as well as a decrease in CO₂ emissions. As a result, **coal imports from the US to Europe are increasing** and **coal-fired power production is surging**, which has negative impacts on overall European CO₂ emissions.
- ▶ Based on the above, a **single European target** – in the form of CO₂ reduction relative to economic performance (i.e. referring to energy and CO₂ intensity) – might therefore be a more sustainable solution than multiple targets. From a gas perspective, such a target will greatly enhance the competitiveness of gas. Only a strong signal in support of gas will promote future necessary investments in gas-related infrastructure that will underpin the continued use of natural gas.
- ▶ Generally, focus must be placed **on the termination of the disproportional subsidization of renewable and alternative energies**. Those must be integrated into the market under regular market conditions, assuming the common risks of investment, in order to become competitive. Related to this, energy and climate policies for 2030 must seriously consider the **strategic importance of oil and gas**, which will continue to be

the backbone of the European **energy supply** (according to the International Energy Agency, oil and gas will account for 55% of primary energy supply in 2035).

- ▶ Related to energy efficiency, it should be noted that the **Energy Efficiency Directive** has only recently been adopted and that it is currently being implemented in the MS. Europe-wide energy efficiency targets based on energy consumption until 2030 can **only be indicative**, and must take into account macroeconomic factors such as demographic and economic growth. Furthermore, **energy efficiency obligations must apply equally to all energy sources**.

Policy Instruments & Innovation

- ▶ Unfortunately, European policies remain fragmented, overregulated and unbalanced. The economic and social dimensions hold less weight compared to ecological aspects. However, European legislation must be **consistent**. Therefore, energy and climate policies need to be compatible with the overall objectives of the EU: **fostering sustainable economic growth and employment**. In this context, aspects such as **security of energy supply, the availability and affordability of energy** as well as **coherence with other policy areas** (e.g. transport) also need to be considered when defining the framework for 2030.
- ▶ The European industry is a driver for innovation and offers solutions to economic, environmental and societal challenges. The key to a sustainable economy that is able to manage potential extended climate change obligations is to **maximize industry's innovation capacity and willingness to invest in research and development of new technologies, especially in the field of energy**. Political support, an appropriate legal framework and the consideration of economic realities for a suitable **mix of technologies** as well as the commitment to **technology neutrality** are **prerequisites for the innovative strength of the industry**. However, in the European Union a coordinated approach to financial resources for R&D, which could have greater leverage than a nationalistic approach, is currently missing and should therefore be stronger addressed in future policy scenarios.
- ▶ A central sphere of action when it comes to fighting climate change is **mobility**. **Oil in combination with sustainable and advanced biofuels** in all modes of road transportation **could provide a significant contribution to Europe's long term targets**. However, the acceptance and use of these fuels must be **harmonized** across Europe on a **technology neutral basis** with clear legislative boundaries. Generally, innovation in this field needs to be strictly assessed because of the associated high investments. Potential Member State obligations **need to go hand in hand with** a stable regulatory

framework that incentivizes and sets **realistic objectives consistent with the market potential and all involved sectors** (e.g. the automobile industry in the context of the deployment of infrastructure for alternative fuels in road transportation).

- ▶ OMV constantly invests in research and development through innovative projects. For example, OMV not only supports the use of **compressed natural gas (CNG)** as an environmentally friendly transportation fuel – with up to 20% less CO₂ emissions and an 80% reduction in carbon monoxide – but also invests in the research and development of second generation alternative fuels such as **hydrogen and biofuels of the second generation**.

Competitiveness & Security of Supply

- ▶ A future framework must establish measures to **react to international developments** that threaten Europe's industry, such as the lower energy prices in the US that have resulted from the extensive development of Shale Gas. Companies are therefore investing abroad instead of investing in Europe – which also affects countries with a strong industrial base such as Austria. To **minimize this competitive disadvantage** and **to reduce European dependence on energy imports** in general, it is crucial for all economies to **develop domestic energy sources – both conventional and unconventional**. Europe displays high potential for such sources that might positively affect energy prices and enhance the competitiveness of the European economy. Further, **the diversification of energy supply routes** is vital for Europe to ensure security of supply.
- ▶ The completion of the internal European market is also needed to strengthen the competitiveness of the European Union. This can be reached via **further liberalization of the markets**. Inflated subsidies influence prices and do not conform to the overall target of free market and competition. As a result, the market share of ecologically harmful coal-fired power plants is suddenly increasing, while clean gas-fired power plants are becoming unprofitable. **The return to liberalization** is key, as markets can only function in an appropriate framework without harmful subsidies that jeopardize them and leverage prices.
- ▶ Generally, there shall be **no distortion of competition**. Burden and risk shall not be carried by single groups but by all market participants in a fair and balanced manner. This is also true when it comes to security of energy supply. Positive incentives could motivate all market players to contribute. In this context, Europe clearly needs a commercially balanced and equitable system for renewables and gas.

OMV Aktiengesellschaft

- ▶ The energy business must regain profitability and efficiency in order to ensure security of energy supply. This involves political and legal support for necessary investments in **European energy infrastructure**. It also includes closing the gap between existing **pipelines** (in this context, the European Commission's list of "projects of common interest" is highly appreciated) as well as the development and modernization of existing infrastructure, especially **gas-fired power plants**. The latter is very much needed to compensate for intermittent renewables.

Effort Sharing

- ▶ EU Member States are highly heterogeneous. The scope of any further decarbonisation of the energy system must therefore be **evaluated for each Member State on an individual basis**. However, a common European strategy that takes into account social and economic disparities (such as the debate on energy prices) is nonetheless necessary. Successful prior measures also need to be included in the analysis. This bottom-up approach would lead to an optimal utilization of possible improvements for each country.
- ▶ Additionally, a **common European approach** toward subsidies that sets a clear overall goal would be beneficial in order to avoid undue influence by one single country on neighboring markets. However, Member States need to be allowed a certain degree of flexibility.