

EU energy and climate policies beyond 2020

Policy recommendations

EU's energy and climate change policies are in need of reform. They need to be consistent, simplified and set to drive European competitiveness.

Statoil recommends the following actions be taken:

- Set a single GHG target for 2030 that would drive emission reductions in the most cost-effective way.
- A structural reform of the EU ETS focusing on: a) tightening the emission cap; b) a supply-side flexibility mechanism; and c) the inclusion of new sectors.
- Ensure a technology-neutral competition among mature energy sources and avoid undermining the functioning of the internal energy market by observance of state aid rule

Europe needs to take full advantage of the contribution of natural gas in reducing emissions while safeguarding economic growth and competitiveness.

1. General principles: a single GHG target to drive smart and cost-effective emission reduction

Statoil welcomes the 2030 Green Paper as an opportunity to provide input on the necessary reform of EU energy and climate policies. We agree with the balanced analysis put forward by the Commission and support the effort to draw lessons from the strengths and shortcomings of the current 2020 framework.

Statoil supports Europe's continued pursuit of a balance among the energy policy goals of competitiveness, security of supply and sustainability. We welcome the recognition that, in the face of global economic and energy realities, more focus should be given to cost-effectiveness and competitiveness.

In Statoil's view this is best served by a clear and predictable framework based on a single GHG emission reduction target. We believe the future framework should be guided by the following principles:

- **Simplification.** Policies should be agreed in advance and aimed at delivering certainty and reduced regulatory risk. A framework based on a single EU-wide GHG emission reduction target is the best option to drive Europe's energy transition: A strengthened EU Emission Trading Scheme (ETS) should be the main policy measure to deliver on this target. The current system based on multiple targets and overlapping policy measures has proven costly, suboptimal, inconsistent and complex.

- **Technology-neutrality.** Innovation and cost-effectiveness are best guaranteed by policies that promote competition among energy sources instead of prescribing a specific energy mix. The European Commission's Energy Roadmap 2050 has demonstrated that a technology-neutral approach is the most cost-effective.
- **Market-based mechanisms.** A robust EU ETS and a well-functioning internal energy market (IEM) are crucial to reduce emissions while providing for economic growth and competitiveness. A functioning EU ETS promotes emission reductions where most cost-effective and creates a level-playing field for European businesses. The integration of the European energy markets should be maintained and strengthened to allow Europe to benefit from the free flow of energy and economies of scale.
- **Global action.** It is essential that the EU's efforts to reduce emissions reflect climate actions taken by its major trading partners. The EU represents today around 10% of global emissions and will achieve little if it acts alone. The EU should therefore continue its effort to build a legally binding international agreement on climate change mitigation and link the EU ETS with emerging carbon markets as this would secure a level playing field for industry. If this does not materialise, mechanisms such as free allocation of allowances and competitiveness aid should be considered to preserve the EU industry.

2. Making Europe's climate ambitions achievable: Taking advantage of the full potential of natural gas

Statoil supports the view expressed in the Energy Roadmap 2050 that natural gas will be critical for Europe to deliver on its energy and climate change ambitions. The use of natural gas in power generation, heating, industrial applications and transport will supply Europe with a cost-competitive energy source that will contribute to reducing emissions while safeguarding economic growth and competitiveness.

A study by the European Gas Forum (EGaF) showed that taking full advantage of the GHG abatement potential of natural gas would save Europe €600 bn in total power system costs to 2050 compared to alternative scenarios.¹ However, the current policy framework has not allowed Europe to take full advantage of this fuel. Gas consumption in the power sector in the EU has decreased from 761 TWh in 2010 to 567 TWh in 2012 (-26%) by with particularly strong losses in the UK (- 46%) and Germany (-18%). Over the same period, coal consumption surged by 8%, registering its most significant increase since the 1980s.²

We challenge the perception that investment in natural gas “lock in” emissions on the road to 2050. A study by IHS demonstrated that conversion of all European coal- and oil-fired power generation to best-in-class combined cycle gas turbines (CCGT) would

¹ European Gas Forum (2011). Making the Green Journey Work – Optimised Pathways to Reach 2050 Abatement Targets with Lower Costs and Improved Feasibility.

² IHS CERA European Power Balances.

reduce emissions by 58% relative to 1990.³ These assets can contribute to cleaner base-load power generation for at least 20 years, beyond which they will be fully amortised and used as balancing plants, or can be retrofitted with carbon capture and storage (CCS) when this technology becomes commercially viable.

Natural gas currently poses lesser challenges to system stability and security than other energy sources due to its flexible and programmable load profile and limited public acceptance issues. Security of gas supplies has continuously strengthened over the past few years thanks to abundance of gas at the global level, increased availability of gas and liquidity in the European market, diversified supply routes and sources and the drive to create an internal energy market with facilitated access to pipelines, storage facilities and LNG terminals. Developing Europe's indigenous gas resources (both conventional and unconventional) may further strengthen Europe's energy security and provide significant economic benefits in terms of fiscal revenues, employment and balance of payments.

3. An ETS reform for robustness

A robust and well-functioning EU ETS should be the central tool of EU climate policy. Action is needed to tackle the current structural oversupply and make the framework robust enough to minimise future political intervention. To this end, Statoil supports:

- **Revision of emission cap and linear reduction factor.** Taking into account the risk of carbon leakage, the EU ETS should be recalibrated to contribute to deliver a 40% GHG emission reduction in 2030, in line with the EU ambition to reduce emissions by 80-95% by 2050 and the trajectory identified in the Roadmap to a Low-Carbon Economy and the Energy Roadmap 2050.
- **Supply side flexibility.** The rigid supply of allowances in the EU ETS has prevented meaningful responses to demand shifts triggered by the economic crisis and other developments. Such shifts are likely to occur in the future, and can be considered either structural or cyclical in nature. The former should be dealt with through the setting of the 2030 emissions cap, and the latter through a mechanism that allows the variation of supply of allowances under the cap. This mechanism would be activated in order to achieve a sufficient threshold for market liquidity (but not be price-driven), and have clear and transparent rules for this activation so as to ensure market predictability and prevent undue political interference.
- **Expansion to new sectors.** The EU ETS should cover all sectors where its application is not excessively complex or where it is impractical for the emitter to be the regulated party. Statoil is for instance favourable to an inclusion of road transport in the EU ETS conditional upon a review or repeal of existing

³ IHS (2011). Sound Energy Policy for Europe – Pragmatic Pathways to a Low-Carbon Economy. Energy Policy Dialogue Special Report.

regulations, such as the Fuel Quality Directive, biofuel targets and vehicle emission performance standards.

A robust EU ETS would generate significant revenues at disposal of member states for fiscal consolidation, targeted spending or tax relief to boost competitiveness and growth, and/or support to the development of CCS and other immature low-carbon technologies.

4. A technology neutral and market-based framework for renewables and innovation

Statoil does not support EU-wide renewables (RES) targets for 2030. While we maintain that the growth of these energy sources should be promoted, we believe targets are too inflexible and do not promote the most cost-effective and innovative solutions to reduce GHG emissions. Moreover, as the 2030 Green Paper explicitly recognises, a number of challenges related to transmission and distribution infrastructure and system management were not addressed by the current policy framework agreed in 2009.⁴

Instead of mandating their share in the energy mix, cost-effective RES should be supported by the pricing signal provided by a robust EU ETS. The EU ETS should be accompanied by additional targeted funding to support R&D and market scaling of immature low carbon technologies. Funding provided must be adequate but limited in time and should be structured in a way that does not undermine the carbon price under the EU ETS.

The same applies to CCS technologies, whose deployment on a commercial basis after 2030 is considered necessary for Europe to achieve its long-term energy and climate ambitions. Statoil believes that a long term business model for CCS is best served by a clear and predictable framework based on a single GHG emission reduction target and the EU ETS. However, CCS needs additional incentives and financial support for the demonstration and early deployment phase.

As technologies mature, financial support should be gradually reduced for new projects. Going forward, production subsidies for all energy sources and fuels should be phased out and a level playing field will ensure competition among all energy sources and technologies.

Statoil supports a review of national support schemes and their adherence to state aid rules in order to ensure technology-neutral competition and avoid undermining the functioning of the internal energy market.

⁴ Examples of challenges currently being faced in most European markets are: a) lack of predictability of RES power production (leading to increased risk of blackout or grid surcharge, occurrence of negative prices, power loop flows); b) increased transmission and distribution infrastructure needs; c) low and volatile load factor of conventional power plants (resulting in lower efficiency and increased cost of operation, missing money problem); d) increased back-up capacity and/or storage needs.

ANNEX: STATOIL CLIMATE PRINCIPLES

- Statoil acknowledges the scientific consensus on human-induced climate change, and supports the UN and its member states to agree on and implement necessary climate measures to reach a required global ambition level to prevent dangerous anthropogenic interference with the climate system.
- Climate policy measures should be predictable, transparent and internationally applied in order to avoid carbon leakage, ensure cost effectiveness and create a level playing field in global markets.
- A price on greenhouse gas emissions, based on the "emitter pays" principle, should be the preferred climate policy framework.
- Multiple regulations for each greenhouse gas emission should be avoided.
- Climate policy measures should be technology and fuel neutral to maximise innovation through market competition.
- A system with tradable emission quotas is preferred to emission taxes, as it allows for linking national and regional quota markets towards an international carbon market.
- Targeted, publicly financed R&D and market scaling support must stimulate new and emerging technologies. The level of support must be reduced over time and removed entirely for competitive technologies.