BP p.l.c. – Consultation response to the European Commission's Green Paper on a 2030 framework for climate and energy policies

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Introduction

Today's challenge is how to address climate change while meeting the growing demand for secure, affordable energy for both consumers and industry. The need to preserve and promote European industrial strength and international competitiveness is a key component of meeting this challenge.

The EU's climate policy ambition should therefore be informed by science, recognise the need for secure affordable energy, take into account progress at international negotiations, and assess potential competitiveness implications.

The scale of the challenge is such that it can only be met through Government acting to provide a clear, stable and simple policy framework. In particular, the EU's 2030 framework should avoid setting overlapping and potentially contradictory targets and measures. There should be a single, economy wide GHG reduction target, split appropriately between the sectors that are within the ETS, and those that are outside it. BP supports the EU ETS as the cornerstone of EU climate policy to achieve the GHG reduction target in the power generation and industrial sectors at lowest cost. The EU ETS is not to promote technology innovation in general or any specific technology. For sectors that are within the ETS (power and industry) we do not support separate and additional targets or measures for renewable power and energy efficiency as these would be duplicative with the ETS and undermine its efficiency. However, limited, targeted and transitional support for research, development & demonstration (RD&D) for emerging low carbon technologies in these sectors would be appropriate. For sectors outside the EU ETS, such as transport, additional targets and measures, such as biofuels blending requirements and vehicle efficiency standards remain appropriate.

EU Climate and Energy Policy

The Green Paper opens the debate on the level of EU climate ambition – specifically on potential 2030 GHG targets and associated policies and measures. The Commission is considering a GHG reduction target at the level of 40% by 2030, and possibly a separate target of up to 30% for renewables.

The current framework of three 2020 targets (20% GHG reduction, 20% renewables, 20% energy efficiency gains) encompasses the Fuel Quality Directive (6% GHG intensity reduction in transport fuels) and the Renewable Energy Directive (20% primary energy from renewables including a 10% mandate for renewables in transport). A single economy-wide GHG reduction target, split between non-ETS sectors and an EU ETS target or cap without overlapping renewables or efficiency targets or measures would reduce complexity and focus efforts on cost-effective emissions reductions within the ETS. The complexity of the current framework is well illustrated by overlapping policies (e.g. between Energy Efficiency Directive and EU ETS, and contradictory targets (between FQD and RED).

In the short to medium term, limited and targeted transitional incentives may be required for RD&D for lower carbon technologies within the ETS. For sectors outside the ETS, such as transport, additional targets and measures, such as biofuels blending requirements and vehicle efficiency standards, continue to remain appropriate. In the long term, policy measures in all sectors should pursue a convergence of the carbon price.

For EU energy policy we consider that open markets in the EU offer the best means of determining the lowest price available to EU consumers and industry, while ensuring diversity in security of supply for both indigenous energy production and energy from other countries. Therefore, BP fully supports the objective of a timely completion of the Internal Energy Market.

Questions and Answers

In its Green Paper consultation the Commission poses a number of specific questions which we answer below.

4.1. General

• Which lessons from the 2020 framework and the present state of the EU energy system are most important when designing policies for 2030?

On EU ETS, the scheme is delivering its objective: its 21% reduction target (2005 base) will be achieved by 2020, and currently is likely to be achieved some six years early.

The total supply of EUA is projected to exceed demand in Phase 3 (2013 to 2020). This is chiefly due to the recession, and to other compliance offset unit availability. Nevertheless, we are not in favour of short-term intervention in the market but do believe there is a need to emphasise the long-term nature of the EU ETS beyond one trading period.

In emphasising the long-term nature of the EU ETS, there is an issue regarding compensation to sectors at risk of carbon leakage, as this does not currently extend post-2020. This will present a cliff-edge effect in 2020 to installations in sectors or sub sectors at risk of carbon leakage, and will also dissuade investment.

The effect of overlapping policies on EU ETS installations must be minimised post-2020 in the EU ETS to ensure market efficiency is not undermined by other more expensive policy instruments applied to the same sectors (power and industry). Examples include national targets for renewable electricity, and the introduction of the Energy Efficiency Directive (EED).

The effects of the current EU economic crisis have been to reduce activity levels and thus lower emissions. With lower emissions the EU ETS targets will be achieved at a much lower carbon price than anticipated which is a good thing. However, the cost of renewable electricity subsidies has been relatively much higher than the carbon price. While these subsidies are spread across the economy they do affect much of electricity intensive manufacturing in particular. Our experience is that while expensive renewable electricity has been subsidised, this has displaced demand from thermal power stations resulting in a lower carbon price in the ETS.

For CCS and other emerging low carbon technologies there is an argument for targeted, limited, and time-limited support for research, development and demonstration.

Finally on energy efficiency, the EED covers a number of different areas ranging from energy saving to energy efficiency promotion. Although it is still being implemented (thus its effectiveness is not proven), it is double regulation by not giving full exemption to EU ETS.

4.2. Targets

• *Which targets for 2030 would be most effective in driving the objectives of climate and energy policy? At what level should they apply (EU, Member States, or sectoral), and to what extent should they be legally binding?*

An early decision on a 2030 GHG reduction target will reduce policy uncertainty, help define investment and allow the EU and Member States to participate fully at international climate negotiations. But such negotiations are uncertain, so as per the first climate and energy package, a unilateral base EU GHG reduction target, and a more ambitious conditional EU GHG target should both be considered. Both targets would have to avoid adverse effects on the European economy - in particular in the manufacturing sector, with the more ambitious target being strictly contingent on comparable commitments by countries (both OECD & non-OECD) to avoid carbon leakage from the EU ETS and ensure EU competitiveness.

While we support a single economy-wide GHG reduction target, we do not at this stage support a single EU climate policy instrument to deliver the target because currently other policy instruments have proven to be effective for non-EU ETS sectors and gases in particular. In those sectors and for those gases, at least for the foreseeable future, regulation may remain more appropriate, for example vehicle efficiency standards and biofuels blending requirements.

The legally binding nature of targets at international climate change negotiations will depend on such negotiations, thus the EU should be flexible. However, the EU ETS must be legally binding on installations to make it work. Similarly, any new effort-sharing agreement between Member States should also be legally binding to prevent any 'free-rider' effects.

For reasons stated above, BP does not support a headline target for renewables or energy efficiency overlapping with EU ETS installations. However, targets for renewables or energy efficiency may be effective for sectors or sub-sectors of the economy where they do not overlap with the EU ETS, such as in transport or buildings respectively.

• *Have there been inconsistences in the current 2020 targets and if so how can the coherence of potential 2030 targets be better ensured?*

The inconsistencies in the current 2020 targets mainly concern the targets and requirements to use renewables in power generation. Here, they have contributed to the increase of overall energy cost and have proved a much more expensive method of reducing CO2 emissions than using the EU ETS alone to drive carbon reductions in the power and industry sectors. Ensuring no renewables and efficiency policy overlap for EU ETS installations in future phases is the solution, though we recognise the need for time and cost limited support measures for innovative new low carbon technologies. For sectors outside the ETS, such as transport, there remains a need to support the development and deployment of renewable fuels, through the retention of biofuels blending requirements out to 2030. Eventually, there should be convergence on the carbon price alone in all sectors.

The current 2020 package does not safeguard the EU's competitiveness for EU ETS sectors as the compensation for carbon leakage expires in 2020. International competitiveness is vital for the EU's economic growth and prosperity. It must also be safeguarded in any international negotiations on climate change to avoid any production or investment carbon leakage effects.

• *Are targets for sub-sectors such as transport, agriculture, industry appropriate and, if so, which ones? For example, is a renewables target necessary for transport, given the targets for CO2 reductions for passenger cars and light commercial vehicles?*

For sectors, such as transport, which remain outside the ETS, there is clear justification for the continuation of dedicated policy instruments or targets. For example, renewable transport fuels (biofuels) continue to need support for research, development and deployment, with an increasing emphasis on advanced or second generation biofuels with higher CO2 savings and lower environmental impacts. For these, support via blending requirements should continue at least until 2025 and probably until 2030. In transport, there is also justification for the continuation of CO2 emissions limits for new cars and vans.

On agriculture, while we have no specific policy proposals, we do acknowledge the difficulty of calculating carbon flows and ascribing the permanence of carbon reductions from land use, land use change, forestry and other stores of carbon. More research is needed in this area of inventory definition and any legislation should be based on sound science.

The renewable transport energy target under the RED should be extended until at least 2025, and probably until 2030 to promote biofuels manufacturing and distribution capacity. We think that volume percentage mandates rather than absolute targets would be preferable to ensure that, even if volumes flex, there is no risk that EU fuel specifications are breached and/or that biofuels volumes hit some buyout price level. We also support the use of multiple crediting (rather than sub targets) for advanced biofuels.

• *How can targets reflect better the economic viability and the changing degree of maturity of technologies in the 2030 framework?*

We advocate that there should be no double regulation of EU ETS sectors, thus there would be no additional target, support or mandate/regulation applicable to EU ETS installations. Due to the need to develop low and zero carbon technologies ahead of the market, some limited and targeted transitional incentives for research and development are needed, such as provided by the Seventh Framework Programme (FP7), its successor programme Horizon 2020, and the Strategic Energy Technology Plan (SET-P). But to avoid permanent subsidy, such incentives for deployment should be both limited in duration and financing, with any final deployment at scale being market dependent.

• *How should progress be assessed for other aspects of EU energy policy, such as security of supply, which may not be captured by the headline targets?*

Given the EU indicative target of increasing industrial output to 20% of European GDP by 2020, the health of the industrial sector – in particular new capital investment compared with EU competitors – is important. This is especially the case in EU ETS installations in sectors or sub-sectors exposed to carbon leakage, and under competition from cheaper fuels (and feedstock in the chemical industry) used elsewhere globally.

We agree with the Commission's Green Paper that there is a need to enable the future exploitation of indigenous oil and gas resources, both conventional and unconventional in an environmentally safe manner, as they could contribute to reducing the EU's energy prices and import dependence as well as boosting employment and tax revenue. We think that diversity of supply is important to enhance security of supply.

4.3. Instruments

• *Are changes necessary to other policy instruments and how they interact with one another, including between the EU and national levels?*

As a principle, installations in EU ETS should not be subject to double carbon mitigation regulation.

For the non-traded (outside ETS) sectors and specifically for road transport, BP supports the continued use of CO2 vehicle efficiency standards promoting development of energy efficient vehicles, and blending requirements for sustainable biofuels with higher GHG savings. To ensure existing investments are rewarded, new biofuels technologies building on existing infrastructure are to be encouraged, and the RED obligation for biofuels should be extended until at least 2025 at the level of 10% and applied to Member States. To promote different types of biofuel technology and feedstocks, such as waste and energy grasses, BP supports the use of enhanced multiple crediting under RED, as opposed to sub-targets.

The existing data collection under RED should form the basis of supplier compliance for the GHG reduction obligation of 6% under the Fuel Quality Directive (FQD). Given the difficulty in implementing Article 7a of the FQD, a harmonised reporting scheme could promote the repeal of FQD 7a.

• *How should specific measures at the EU and national level best be defined to optimise cost-efficiency of meeting climate and energy objectives?*

For EU ETS sectors and their installations, regulators should ensure no other overlapping instruments are used.

For the non-traded sectors, the challenge is to encourage energy efficiency (thus reducing carbon emissions across the EU-28) in large numbers of small direct and indirect emission sources and users. Where pan-European measures such as CEN standards – particularly for small indirect sources – can be applied cost-effectively across the EU at the equipment design stage, they should be used.

• *How can fragmentation of the internal energy market best be avoided particularly in relation to the need to encourage and mobilise investment?*

The Third Energy Package needs to be reinvigorated to ensure the EU internal energy market for gas and electricity can be optimised.

• *Which measures could be envisaged to make further energy savings most cost effectively?*

We support the use of market-based measures, thus the primacy of the EU ETS for power and industry sectors is important. To ensure cost effectiveness, EU ETS installations should be exempt from overlapping measures.

• *How can EU research and innovation policies best support the achievement of the 2030 framework?*

Given the need to develop and have ready for deployment promising low and zero carbon technologies, we advocate a separate, limited, targeted and time-limited regime of

transitional incentives. The EU already encourages research and development via its main €50 billion FP7, its replacement Horizon 2020, as well as a specific programme to accelerate the development and deployment of cost-effective low carbon technologies (SET-P). For sectors outside the ETS, additional targets and measures may be needed to drive the development and deployment of innovative and efficient low carbon technologies (e.g. advanced biofuels).

4.4. Competitiveness and security of supply

• *Which elements of the framework for climate and energy policies could be strengthened to better promote job creation, growth and competitiveness?*

The key element is EU's relative competitiveness vs. other global markets. Only this will provide long-term job creation and growth for the EU.

• *What evidence is there for carbon leakage under the current framework and can this be quantified? How could this problem be addressed in the 2030 framework?*

Evidence of carbon leakage is currently most obvious in the EU chemical sector which is under pressure from cheaper US products that both have no carbon cost, and also have access to cheaper natural gas. Although the EU carbon cost is currently at a low, the absence of any compensation for carbon leakage post-2020, a lack of harmonised support for indirect emissions (higher electricity costs passed on to industrial consumers) coupled with higher carbon prices as the EU ETS 1.74% annual reduction factor begins to erode both free allocation and the cap, means a dissuasive outlook for EU investment.

• *What are the specific drivers in observed trends in energy costs and to what extent can the EU influence them?*

It is the total cost of energy use that is important. This may include: the raw fuel itself; manufacturing/generation/processing costs; carbon costs (e.g. EU ETS price); renewable electricity feed-in tariffs; other environment levies; taxation; and delivery + transportation costs. Outside the fuel cost itself, many of these costs have been increasing and are determined or at least influenced by Member States. If total costs are too high, then the EU becomes less competitive.

On the fuel cost itself, we consider that open markets in the EU offer the best means of determining the lowest price available to EU consumers and industry. Markets also allow diversity in security of supply for both indigenous energy production and energy from other countries.

BP supports the completion of the EU's internal energy market for electricity and natural gas. We also share the Commission's desire expressed in the Green Paper itself *"…to enable the future exploitation of indigenous oil and gas resources, both conventional and unconventional in an environmentally safe manner, as they could contribute to reducing the EU's energy prices and import dependence."*

• *How should uncertainty about efforts and the level of commitments that other developed countries and economically important developing nations will make in the on-going international negotiations be taken into account?*

An early decision will reduce policy uncertainty, help define investment and allow the EU and Member States to participate fully at international climate negotiations. But success in such negotiations is not certain, so – as per the first EU climate and energy package – a unilateral base EU GHG reduction target, and a more ambitious conditional EU GHG reduction target should both be set – the latter contingent on comparable commitments by countries (both OECD & non-OECD) to avoid carbon leakage and ensure EU competitiveness.

• *How to increase regulatory certainty for business while building in flexibility to adapt to changing circumstances (e.g. progress in international climate negotiations and changes in energy markets)?*

To improve economic efficiency, reduce volatility and increase market confidence, the Commission should emphasise the long-term nature of the EU ETS. In particular:

- The EU ETS has no expiry date, and via the linear reduction factor of 1.74% per annum will deliver zero net emissions around 2067;
- The reassurance that allowances can be banked across between all future EU ETS phases;
- The confirmed EU ETS 2013-20 allocations to installations combined with the impact of the cross-sectoral correction factor should soon be published by the Commission, improving certainty via transparency.

This public data will assist strategic investors to model their own carbon exposure and that of their EU competitors. It will enable a focus on longer term investment strategies, provided future market interventions are either rejected or minimised to cut regulatory risk. This emphasis on the long-term together with a policy of no short-term intervention in the market (which BP supports), should further reassure the longer term investors that are needed to ensure market liquidity.

In terms of better adapting to the changing international climate change negotiations, as per the first EU climate and energy package, a unilateral EU GHG reduction base target, and a more ambitious EU GHG conditional target should both be set. Both targets should take into account comparable commitments by countries (both OECD & non-OECD) to avoid carbon leakage and ensure EU competitiveness.

• *How can the EU increase the innovation capacity of manufacturing industry? Is there a role for the revenues from the auctioning of allowances?*

Innovation capacity is at least partially the result of a healthy competitive business environment. The EU must ensure it is not competitively disadvantaged in international negotiations regarding carbon leakage in particular. This competitiveness is partially ensured by free allocation as compensation for carbon leakage.

While recycling revenues from auctioning is welcome, to prevent national distortion there might be a role for auction revenues to be recycled via the EU's own technology programmes (SET-P and Horizon 2020) to use existing structures and get the maximum long term benefit across the EU.

The Commission should emphasise long-term nature of the EU ETS to improve economic efficiency and reduce volatility. This emphasis on the long-term together with a policy of no short-term intervention in the market (both of which BP supports) should further reassure the longer term investors that are needed ensure market liquidity.

• *How can the EU best exploit the development of indigenous conventional and unconventional energy sources within the EU to contribute to reduced energy prices and import dependency?*

For EU energy policy we consider that open markets in the EU offer the best means of determining the lowest price available to EU consumers and industry, while ensuring diversity in security of supply for both indigenous energy production and energy from other countries.

Specifically, realistic exploration and production licencing regimes, coupled with realistic incentives particularly to enable recovery of marginal resources, are needed.

• *How can the EU best improve security of energy supply internally by ensuring the full and effective functioning of the internal energy market (e.g. through the development of necessary interconnections), and externally by diversifying energy supply routes?*

BP supports the completion of the Internal Energy Market for electricity and natural gas. It is open markets which will stimulate both the exploitation of indigenous EU oil and gas resources to assist EU's energy pricing and import dependency. The continuing diversification of EU energy supply routes and access to international energy also improves competitiveness and security of supply.

4.5. Capacity and distributional aspects

• *How should the new framework ensure an equitable distribution of effort among Member States? What concrete steps can be taken to reflect their different abilities to implement climate and energy measures?*

There is no single right answer to such a framework other than through political bargaining between Member States for a new effort sharing agreement. However, a level of public transparency on the initial criteria and on the negotiations may assist in highlighting proposed national mitigation efforts.

• *What mechanisms can be envisaged to promote cooperation and a fair effort sharing between Member States whilst seeking the most cost-effective delivery of new climate and energy objectives?*

We support the EU ETS as the main EU cost-effective market-based mitigation instrument. To ensure cost-effectiveness and to avoid policy duplication and conflicting carbon price signals, installations in EU ETS would be exempt from separate policy measures that target in particular renewables and energy efficiency. We stress the importance of competitiveness for EU industrial installations exposed to carbon leakage; BP strongly recommends an extension beyond 2020 of the list of sectors and sub-sectors exposed to a significant risk of carbon leakage and thus compensation to give certainty to new investments.

The target for non-EU ETS GHG emissions would be held by Member States under a new effort sharing agreement. While the onus must be on Member States to achieve their national GHG targets, we encourage the use of pan-European policy instruments where these are efficient.

• *Are new financing instruments or arrangements required to support the new 2030 framework?*

Given the need to develop and have ready for deployment promising low and zero carbon technologies and energy efficiency, we advocate a separate regime of transitional incentives outside the EU ETS. The EU already encourages research and development via its main €50 billion FP7 programme (and subsequent Horizon 2020 programme). The EU also has a specific programme to accelerate the development and deployment of cost-effective low carbon technologies (SET-P).

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