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The oil & gas extractive sector and Revised EU ETS for the post-2020 period / carbon leakage

Following the Commission proposal for a Directive amending Dir. 2003/87/EC to enhance cost-effective emission reductions and low carbon investments (draft ETS Dir.) on the 15 July 2015, IOGP welcomes the opportunity to send its comments in the context of the eight-week period process.

IOGP supports the use of a market mechanism and, in particular, the EU ETS in Europe, as the core instrument to reduce CO_2 emissions in a cost-effective manner. We also welcome the continuation of the carbon leakage protection principle to trade-exposed sectors.

We would however like to bring legislators' attention to two preliminary but fundamental concerns that IOGP has about the development of the EU ETS post-2020:

1. Carbon leakage and natural gas production (NACE 06.20)

We remind the Commission that natural gas plays a key role in the EU energy system and will continue to be of major importance in the future, as Europe seeks to strengthen its energy supply security while scaling up its climate ambitions. Gas is one of the most versatile fuels, thanks to its scalability, reliability and efficiency as well as cleaner-burning properties.

The accompanying Impact Assessment[1] makes no mention of natural gas production (NACE 06.20) as a sector nor does it explain in sufficient detail how and why it chose the new criteria. Separate (provisional) analysis indicates however that with the new qualifying criteria (trade intensity multiplied by emissions intensity) natural gas production would fall well below the 0.2 threshold, qualifying only for 30% protection in Phase IV.

[1] SWD(2015) 135 final of July 15th 2015.

All in all, the new provision will impose additional operating costs for natural gas production, affecting the prospects for new gas developments in Europe's, reducing the valuable opportunity gas can play towards lowering GHG emissions.

- *We urgently ask that the Commission shares its analysis of sector NACE 06.20 and invite EU legislators to work with IOGP to ensure that full carbon leakage protection is extended to natural gas production post-2020.*

2. The treatment of self-generated electricity on offshore installations.

The new proposal continues the confusion between self-generation of electricity on offshore platforms and onshore power plants and other power generators (including from CHP – Combined Heat and Power plants) used in some land-based industries.

Allocation of free allowances for the emissions produced by the self-generation of electricity onboard offshore platforms – representing about 40% of platform CO_2 emissions[2] – is justified by the absence of connection to the electricity grid and is for their own use (there are no retail electricity consumers to sell the electricity on to).

- *We urgently ask for these unintended consequences to be addressed by allowing, on board generation of electricity on offshore platforms to be granted free allowances, in Art. 10a par.3.*

The overall impact of the proposals for, amending the EU ETS Directive will be to add approximately €280M p.a additional annual operating costs3 to our sector post-2020 that are not borne by other producers in countries supplying crude oil and gas to the EU28 such as Russia, Nigeria, Iraq, Libya, Saudi Arabia, Algeria and Angola. This competitive disadvantage would have negative impacts on the oil and gas sector in the EU and is inconsistent with one of the key pillars of Commissioner Juncker's "Energy Union" policy, which is the promotion of indigenous energy production.

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[2] Based on analysis of UK sector prior to Phase 3 that indicated approx. 50-55% and adjusted to reflect broader North Sea operations.

[3] Assuming an EUA price of €20/t CO_2 and 27Mt pa total emissions split 2:1 oil:gas across the two NACE subsectors.