International Association of Oil & Gas Producers

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IOGP feedback to the proposed European Climate Law

Introduction

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 upon the implementation of enabling measures. 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.

IOGP welcomes the long-term predictability that the Climate Law aims to provide. The climate neutrality target, as well as interim targets on the pathway to 2050, need to be accompanied by an enabling policy framework. EU policies, including EU financing and funding mechanisms, should facilitate a cost-efficient energy transition which leaves no one behind. A holistic, technology-neutral approach will be necessary to reach decarbonisation objectives at least cost. This will help safeguard the EU's global competitiveness and ensure continued long-term public support for addressing climate change.

Implementation of the EU's current climate targets requires each Member State to bear costs as outlined in previous impact assessments accompanying EU energy and climate policies. Adjusting the EU's trajectory towards 2050 will impact on these policies, and adjustments which result in increased costs will necessitate additional support for those Member States facing the highest transition challenges. Thorough and transparent impact assessments will, therefore, have to be carried out regularly between now and 2050, with benefits, costs and trade-offs clearly communicated to the public.

Broad stakeholder consultation will ensure a practical pathway for implementation and avoid unintended consequences and inefficiencies. **IOGP welcomes the opportunity to provide feedback to the proposed Climate Law, and encourages the Commission to consider the below recommendations.**

1) Using the NECPs as a basis for EU-level planning

The European Climate Law should draw on the National Energy and Climate Plans (NECPs) in the process of setting the EU's trajectory towards the 2050 target. This would ensure support for the decarbonisation efforts of each Member State and for EU policies that enable an affordable and just energy transition.

The Governance Regulation requires all Member States to submit NECPs to the European Commission. The NECPs established a unique process to ensure that the EU, its Member States and all stakeholders can plan together and collectively fulfil the objectives of the Energy Union. The final NECPs 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. In addition to using the NECPs as a tool for reporting as outlined in the proposed European Climate Law, IOGP encourages the Commission to use the NECPs as a basis for EU-level planning when setting the Union's trajectory towards 2050.

Trajectory adjustments need to be considered an essential issue which would require the NECPs to be reviewed and thus would have to be carefully planned. It is crucial that the EU and Member States provide a predictable investment climate for all necessary low-carbon technologies and security for investors basing their decisions on long-term investment cycles.

2) Ensuring thorough, transparent and regular impact assessments towards 2050

The European Climate Law should take into account that detailed, thorough and transparent impact assessments will need to be carried out regularly between now and 2050 to ensure that all objectives are being progressed during the energy transition.

Uncertainties related to R&D, technology, international climate policy and other macroeconomic and geopolitical developments between now and 2050 will require the EU to commit, in line with Better Regulation guidelines, to thorough and transparent impact assessments. For example, the COVID-19 pandemic has unleashed an unprecedented socio-economic crisis in Europe and globally, affecting all citizens and all economic activities.

Regular impact assessments will need to take into account new developments to ensure that all objectives, such as 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 and a science-based approach are being progressed through the transition. The oil and gas industry, with its knowledge and R&D capacity, is willing to contribute fully and constructively to such impact assessments. The results of these impact assessments should be clearly communicated to ensure that the costs, benefits and potential trade-offs of policy options are known and understood by the public. This is required to provide continued long-term public support for addressing climate change while facilitating a just transition.

3) Enabling all solutions and energy carriers on the pathway to climate neutrality

The European Climate Law should ensure that future EU policies enable all technology solutions and energy carriers to contribute to the EU climate neutrality target as well as the interim targets on the pathway to 2050.

a) Considering the advantages and versatility of gas

EU policies should recognise that natural gas will play a key role in the energy transition across sectors of the European economy, and can continue to play a role in a deeply decarbonised energy system. Policies should enable Member States in their decarbonisation efforts, including fuel-switching to natural gas on the pathway to 2050. In their NECPs, several Member States plan for the phase-out of coal from their energy mix and refer to a shift to natural gas as one of the solutions to reach their 2030 GHG emission reduction targets[1]

Already today, coal-to-gas switching has helped significantly to reduce EU GHG 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[2]. 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 make use of the cost-efficient emission reductions provided by fuel switching in power generation.

Natural gas can be an essential driver of transition in carbon-intensive regions, in sectors such as power and heat generation and transport. In power generation, natural gas emits up to 50% less CO_2 than coal and even two thirds less than lignite[3], and can provide efficient back-up for an increasing share of power generated by intermittent renewable energy sources. Natural gas combined heat and power (CHP) can lower the carbon footprint of electricity and heat while keeping transition costs in check. Efficient gas boilers can replace coal or oil-based appliances to reduce CO_2, NOx, SOx and PM emissions from heating. When replacing fuel oil as a marine transport fuel, liquefied natural gas (LNG) can reduce SOx emissions by 100%[4], NOx by 80-90% and CO_2 emissions by up to 21%[5] and help the shipping industry meet more stringent emissions targets set by the 2020 IMO regulations.

With reference to the *'Sustainable and Smart Gas Infrastructure for Europe'* Initiative launched by the Romanian Presidency of the Council in Bucharest on 1 and 2 of April 2019 to which IOGP is a signatory[6], we highlight that gas offers the necessary characteristics as an energy carrier that can be transported over long distances, and can easily be stored for longer periods, while being applied in end-use sectors which would be challenging to fully electrify. We are also convinced

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

[2] See Fraunhofer ISE (2019) Energy Charts: https://www.ise.fraunhofer.de/de/presse-und-medien/news/2019/33-prozent-weniger-co2-emissionen-durch-brennstoffwechsel-von-kohle-auf-gas.html

[3] IEA (2012). *CO_2 emissions from fuel combustion* (p.53). Available from: http://wds.iea.org/wds/pdf/documentation_co2_2012.pdf

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

[5] Xu, J., Testa, D., & Mukherjee, P. K. (2015). The use of LNG as a marine fuel: the international regulatory framework. *Ocean Development & International Law*, 46(3), 225-240. Available from: https://www.tandfonline.com/doi/full/10.1080/00908320.2015.1054744

[6] Romanian Presidency of the European Council (2019): https://www.romania2019.eu/wp-content/uploads/2017/11/DECLARATION-on-Sustainable-and-Smart-Gas-Infrastructure.pdf

that the gas infrastructure will have to play its role in the decarbonisation of the energy system, by preparing itself to transport growing shares of other gases than natural gas, such as hydrogen, biomethane, synthetic methane as well as the transport of CO_2 for utilisation or storage. In a 2050 perspective, investing in the production of natural gas and hydrogen as its decarbonised form as well as in technical adaptations of the EU gas infrastructure to carry hydrogen can contribute to climate neutrality while making use of existing infrastructure in a more cost-effective way.

b) Strengthening the use of low-carbon technologies and energy carriers

Low-carbon technologies, including CCS, will play an important role in decarbonising energy-intensive industries and reaching the EU's climate neutrality objective. This is acknowledged by the European Commission in its Communications[7] on "A Clean Planet for all" and the European Green Deal, by the European Parliament in its resolutions[8], and by the Council in its conclusions on the Future of Energy Systems[9]. Likewise, the IPCC, the IEA and other reputable independent experts find that CCS will be key to achieving the goals of the Paris Agreement.

There is potential for 150.00 direct and indirect jobs linked to CO_2 capture, transport and storage in Europe in 2050[10]. CCS in Europe can also potentially support the development of a hydrogen economy which could provide up to 5.4 million jobs by 2050[11], as well as the retention of existing jobs in energy-intensive industries[12]. In their NECPs as of April 2020, 12 Member States foresee a role for CCS, whereas as many as 22 foresee a role for hydrogen in meeting their decarbonisation objectives[13].

Further action is needed now, and infrastructure decisions will be required in the coming years for innovative low-carbon technologies to reach scale in time to deliver deep decarbonisation by 2050. The policies enabling the 2050 climate neutrality objective should help accelerate their pre-commercial demonstration and deployment. They should be underpinned by market-based, economy-wide carbon pricing and adopt a technology-neutral approach to drive cost-effective decarbonisation. They should encourage investment in renewable and low-carbon gases, including all forms of low-carbon hydrogen. They should include policy support for carbon capture and storage or utilisation (CCS and CCU) in addition to nature-based carbon management solutions.

4) Taking a global approach

The European Climate Law should allow for cooperative approaches and international transfers of mitigation outcomes. This would enable the achievement of greater global ambition over time by helping countries to meet their climate pledges faster and more cost-effectively.

Addressing climate change requires commitment from all emitters worldwide. A globally consistent, meaningful carbon price would avoid carbon leakage and maintain a level playing field. In the absence of a global carbon price, allowing international credit generation and trading improves the cost-effectiveness of global emission reductions.

IOGP stresses the importance of international cooperation as a primary policy tool to achieve climate ambitions, in particular by effective implementation of Article 6 of the Paris Agreement. COP26 will offer an excellent opportunity for the EU to showcase its continued commitment to a global approach. Progress on Article 6 is critical to addressing climate change, and the EU should redouble efforts to a successful negotiation despite challenges posed by the COVID-19 pandemic.

Carbon and investment leakage risks should be integrated into future assessments of EU trajectory adjustments. European industries contribute significantly to finding solutions to mitigate emissions and reaching climate targets. Offshoring industry would not only have a severe impact on Europe's prosperity, but could also have adverse effects on the global effort to address climate change as production processes could be shifted to regions of the world where climate and environmental standards are less ambitious[14].

[7] 'A Clean Planet for all' (COM(2018)773); The European Green Deal (COM(2019)640)
[8] Climate change (2019/2582(RSP)); The European Green Deal (2019/2956(RSP))
[9] Conclusions on the future of energy systems (10592/19(25 June 2019))
[10] 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
[11] FCH JU (2019): *Hydrogen Roadmap Europe*. Available from: https://www.fch.europa.eu/sites/default/files/Hydrogen%20Roadmap%20Europe_Report.pdf
[12] 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
[13] See IOGP (2020) analysis of NECPs: https://www.oilandgaseurope.org/wp-content/uploads/2020/04/NECPs-Factsheet-v2.pdf
[14] The adoption of more stringent policies in the EU may create incentives for transferring EU emissions and other countries to relax their own emission reduction commitments. See Polish Centre for Climate and Energy Analyses (2019): http://climatecake.pl/wp-content/uploads/2019/07/CAKE_CL_Risk-of-CL_ENG.pdf