

EUROPIA Position

Brussels, 1st July 2013

The EU 2030 framework for climate and energy policies

This document presents EUROPIA's (representing the European Petroleum Industry) contribution to the debate about the 2030 framework for climate and energy policies.

GENERAL PRINCIPLES

EUROPIA agrees with the trio of energy and climate policy objectives: security of supply, sustainability and affordability of energy prices supporting industrial competitiveness and societal quality of life. We believe that trade-offs among the objectives must be openly addressed, and the current emphasis of policies re-balanced: future policy choices should ensure that equal weight is given to all three objectives.

EUROPIA welcomes the adoption, in October 2012, of the Industrial Policy Communication Update and its emphasis on the importance of placing industry centre-stage if the EU is to remain a global economic leader. While calling for a proactive EU industrial policy, the Commission stressed that this leadership objective can only be met in the presence of a performing pan-European energy infrastructure, completion of the internal market for gas and electricity and competitive energy prices. The integrated EU energy and industry policy should aim to put competitiveness and sustainability on an equal footing.

Climate and energy policies and instruments, both at national and EU level, should avoid multiple regulations for the same target, if the EU is to avoid excessive complexity and regulatory burden for industry with associated unintended consequences. They should be technology neutral to maximise innovation through market competition, transparent and predictable in their impacts to ensure the necessary stability for industrial investment while keeping costs to a minimum.

It is essential that all of society contributes equitably to the achievement of emissions reductions. An EU framework should promote a consistent GHG abatement cost across the economy.

Concerning international action, the EU represents a decreasing part of global emissions and energy consumption. The level of ambition in future EU climate policy should be set in a transparent way and should be explicitly made conditional on a fair sharing of the emissions reduction with other significant global economies, as further EU unilateral action will have little or no impact on global emissions. EUROPIA believes that measures to support sectors deemed at risk of carbon leakage (including Refining) are essential to ensure that EU competitiveness is maintained.

Last but not least, we urge the Commission to ensure that all climate and energy policy proposals are accompanied by transparent, independently verified and thorough impact assessments which identify intended and potential unintended consequences. As suggested by the 2050 Energy Roadmap independent expert group, scenario

modelling, which provides the basis of policy making, should likewise be conducted in a transparent manner with assumptions made available to the public.

Closer engagement with all stakeholders, including industry, during the early policy formulation period would bring huge added benefit to the EU and its stakeholders.

POLICY FRAMEWORK POST 2020

Bearing in mind the challenging EU greenhouse gas (GHG) emissions reduction aspiration of 80-95% (1990 base year) by 2050 (as agreed by the European Council in the context of necessary reductions by developed countries as a group), and the requirements for long-term investments in energy infrastructure, industry needs a clear and stable post-2020 policy framework.

EUROPIA is convinced that EU policy post 2020 and beyond should directly address and support the three agreed primary objectives of sustainability, economic competitiveness and security of supply :

1. **Sustainability** and climate protection should focus on the GHG emissions reduction objective as opposed to incentivising a particular low-carbon energy mix. However, we recognise that there is a need to support the deployment of low-carbon technologies, but only under the conditions detailed later in this paper.
2. **To preserve competitiveness in the absence of global engagement**, EU policy must carefully address carbon leakage, to ensure affordability for EU society.
3. **Security of supply** must be assisted by the completion of the internal energy market. The contribution of EU internal resources, current and potential, including EU refining capacity and manufacturing must be taken into account.

The main focus of future climate policy should be on emissions reduction as opposed to setting specific targets for the energy mix and for energy consumption. EUROPIA calls on the EU to adopt a single, transparent, cost effective, long-term trajectory for carbon abatement, which is shared economy-wide and accepted by society.

The following conditions are needed for setting a 2030 binding economy-wide target for GHG reduction which goes beyond the 2020 target:

- Its impact on the industry and the EU economy as a whole is evaluated through a thorough impact assessment;
- It takes account of the differing pace of commitments by other countries. It must not damage EU competitiveness and should rather include mechanisms to preserve it. As a reminder, the 2009 ETS Directive was established in expectation of an international agreement and foresees that its review should be done “in the light of developments in that context”;
- Incumbents and new entrants in industrial sectors deemed to be exposed to carbon leakage, including Refining, should continue to receive protection after 2020;
- It involves the contribution of all sectors;
- Policies supporting it should be technology-neutral;

A single GHG reduction instrument, rather than the current regime of multiple and overlapping targets, is the most appropriate for industry including electricity generation: 20/20/20 should not be followed by an analogous system of multiple targets.

BRINGING THE INTERNATIONAL DIMENSION TO THE FOREFRONT

The international ambition to fight climate change is only achievable if all major economies engage meaningfully on a comparable scale. The level of ambition of any EU target should be set in a transparent way and should therefore take into account the differing pace of commitments by other countries, in order to ensure that EU competitiveness is maintained: the EU represents just over 10% of global emissions and this share is declining. The level of ambition in future EU climate policy should explicitly be made conditional on measurable and equitable commitments by at least the US, China and other significant economies. Further EU unilateral action will have little or no impact on global emissions, and will increase carbon leakage, something that is already a major issue in industrial sectors in particular.

EU negotiators will need to consider the following key elements during 2015 international climate conference (COP 19):

- all developed countries and advanced developing countries should commit to equitably ambitious emission reduction targets;
- maintain a level playing field for the European industry;
- introduce a universal regime for monitoring, reporting and verification (MRV);

Under the right conditions, the linking together of GHG emissions trading schemes is desirable as a step towards the creation of a global scheme. At the same time, when taking into account carbon leakage and competitiveness issues, it is important that the actual level of commitment and its effects, rather than the stated intentions, on global carbon emission reduction are taken into account. Until comparability of the various international abatement schemes is achieved, carbon leakage in industrial sectors must continue to be a key consideration for the EU's post-2020 climate policy framework.

A SINGLE, EU-WIDE GHG EMISSIONS REDUCTION MECHANISM FOR ELECTRICITY AND INDUSTRY

EUROPIA believes that market mechanisms can bring about GHG emissions reduction at the lowest cost to society, and thus call for a single EU-wide emissions reduction mechanism to remain as the central climate policy measure after 2020. The system should be clear, simple and predictable with rules for future adjustments, if any, clearly and explicitly laid out. The credibility of the system will also depend on its robustness against politically-motivated intervention.

EUROPIA members support emissions trading as a cost-effective market mechanism for emissions reduction in the power and industry sector. An appropriate market-based compensation scheme must remain in place to protect EU industry from carbon leakage effects.

EUROPIA considers that the proposed structural measures in the Commission's Carbon Markets Report of 14 November 2012 for the EU ETS do not specifically address emissions post-2020. We would welcome further proposals from the Commission that will address the whole EU economy - including the ETS and non-ETS sectors – in the post 2020 context.

Regarding sub-sectors of society and the economy, such as the transport and building sectors, where the application of the central market-based instrument may be excessively costly or ineffective; where economic or market signals are insufficient to facilitate progress; or where it is impractical for the emitter to be the regulated party, the central climate policy measure should be complemented by other policy measures for GHG emissions. Such complementary measures should avoid overlap with the central GHG reduction scheme. Convergence of the price placed on emissions across the entire economy should be pursued.

EUROPIA believes that economically and environmentally sustainable biofuels may play a significant role in the future of transport. We therefore support the development of cost effective advanced biofuels, i.e. those biofuels that are non-food & feed competing, sustainable and beneficial in terms of lifecycle greenhouse gas emission.

Regarding a possible extension of EU ETS to transport after 2020, EUROPIA believes that any extension should be considered only on its own merits and under the following conditions: the cost should be on those who make the actual decisions to mitigate emissions or to buy allowances, and existing policy measures to tackle transport efficiency and emissions would need careful review and amendment.

RENEWABLES, ENERGY EFFICIENCY AND OTHER INNOVATIVE TECHNOLOGIES (INCLUDING CCS)

The current mandatory renewables target has been distorting the carbon price signal within the EU ETS and has crowded out more cost-effective means of GHG reduction. Therefore, EUROPIA does not support targets for renewables post-2020, particularly if they overlap with the central carbon abatement mechanism. The European Commission's Energy Roadmap 2050 Communication has also demonstrated that a technology-neutral approach is the most cost-effective. The cost of meeting the longer-term targets is of prime importance: over-expensive policies resulting from focusing on deployment of specific technologies, rather than taking a carbon reduction approach as the driver of ambition, will put an excessive burden on society by misdirecting scarce resources.

We recognise the need to support R&D to bring promising low-carbon technologies to the market, but all energy sources should be integrated into the market under normal market conditions, without subsidies (including system connection, balancing cost and exposure to price risk) as soon as possible. In fact, production subsidies¹ for all fuels should be phased out. In doing this, cost-effective renewables will compete with conventional energy sources, and a level playing field amongst low-carbon and other energy sources will be achieved via the carbon price.

Future renewable energy sources and future energy efficiency gains largely depend on technology development. EUROPIA believes that a substantially increased R&D and innovation financing scheme is likely to bring faster and more significant results than current renewables production support regimes. In addition, this approach will also be more cost-effective and will promote a more competitive EU through R&D. Within a robust long-term market mechanism for emissions reduction, the carbon price and recycled auction revenues can also contribute funding for R&D.

Schemes to reduce carbon emissions generate substantial revenue to governments. Depending upon how this revenue is used, there is potential for significant economic distortions. To minimize impacts on the economy and on energy consumers, revenue from the EU ETS should be returned to the economy with the least distortion of economic activity possible. Consideration may also be given to allocating a proportion of the very large potential revenue streams for research and development of low emission technology.

EUROPIA strongly believes that there is also potential for improvement in energy use by both end users and other sectors - even where energy costs are a small proportion of operating costs. Such consumers may not respond to economic or market signals, and may need facilitating measures to promote progress. Future policies should first focus on these consumers, where progress can potentially be made at negative or low cost without overlapping with the EU-wide carbon reduction instrument (EU ETS). Better energy efficiency will help to conserve resources and to improve international competitiveness, as well as reducing the EU's greenhouse gas emissions.

¹ EUROPIA and OGP do not accept the concept of tax reliefs as "subsidies" particularly when associated with tax regimes and rates significantly in excess of those levied on other industries. The deduction of business expenditures for tax purposes is a fundamental part of a normal tax regime.

HOW SHOULD THE EU FOSTER COMPETITIVENESS AND SECURITY OF SUPPLY?

Regarding the other objectives of the EU energy policy, namely competitiveness and security of supply, EUROPIA does not consider that binding targets are necessarily the best instrument to promote them. At the same time, we believe that these priorities should be dealt at the same level as climate protection, and therefore recommend the following approach.

Based on the IEA definition of **Energy Security** (“Energy security refers to the uninterrupted availability of energy sources at an affordable price”), EUROPIA advocates for the following:

- a rigorous enforcement of the third energy package into national laws;
- diversification of routes and sources rather than the misleading notion of “energy independence”;
- industry able to carry out initial exploration activities to determine the size and commercial viability of the potential unconventional energy sources;

Addressing security of supply concerns by promoting the increased use of indigenous renewables, with the aim of reducing fossil fuel bills, is misleading. Because of intermittency and decentralised deployment, they often negatively impact system balance, which is also a key element of security of supply.

Regarding the **competitiveness objective**, EUROPIA welcomes the 2012 Industrial Policy Communication Update and the ambition to reverse the declining role of industry. We also see the key elements of the strategy, e.g. improvements in the functioning of the Internal Market, measures to increase investments in human capital and skills, as positive contributions to EU’s competitiveness. At the same time, we do not believe that targets will solve Europe’s competitiveness problems as the economy is unlikely to respond appropriately to any mandatory target.

EUROPIA believes that energy prices are a central issue for competitiveness, as emphasised in the European Summit conclusions on the 22nd of May 2013². End user electricity prices for industry, excluding taxes, are significantly higher compared to some of our competitors³. Addressing the issue of high electricity costs by promoting the increased use of indigenous RES, such as wind and solar, “in order to avoid the large fossil fuel bill of the EU” is a simplistic approach. On the contrary, subsidised energy technologies must demonstrate that they have a credible pathway to a self-sustainable future.

EVALUATE FIRST

The cumulative costs of ever-increasing and overlapping layers of legislation, which severely impact the Refining industry’s competitiveness and may lead to carbon leakage, must be clearly assessed. EUROPIA believes that every new policy measure should be based on realistic assumptions and should be thoroughly tested with regard to its impact on the competitiveness of the economy and its industries. EU policies should be considered in global terms; EU environmental regulations must be more broadly aligned with the rest of the world.

In this context, we welcome recent Commission’s initiatives to set up a Refining Forum and to conduct a Fitness Check to address the situation of EU Refining. When assessing the situation of the Refining Industry, the Commission should look in priority at whether it “is fit to invest rather than to survive” and if the current framework conditions create investment perspectives that offer a Return On Investment.

² European Council Conclusions on the 22nd of May 2013: “The EU’s energy policy must ensure security of supply for households and companies at affordable and competitive prices and costs, in a safe and sustainable manner. This is particularly important for Europe’s competitiveness in the light of increasing energy demand from major economies and high energy prices and costs. [...] The impact of high energy prices and costs must be addressed, bearing in mind the primary role of a well-functioning and effective market”.

³ Recent Commission analysis highlighted (Industrial Policy Communication update) that end user electricity prices for industry excluding taxes are significantly more expensive compared to countries such as the US, Korea or Canada and that “energy prices for European industry went up to 27% in real terms between 2005 and early 2012, which is higher than in most other industrialized countries”

THE FUTURE ROLE OF OIL & OIL PRODUCTS

Most forecasters show oil continuing to have a significant global role far beyond 2020. EUROPIA only seeks equal treatment with other sectors inside and competitors outside the EU. In a free market the cost of carbon is taken equally into account across all technologies and fuels, including coal, oil, gas and biofuels, as well as electricity. Oil must be able to compete in such a market on its physical, technological, economic and environmental features.

In considering electrification, the EU's future climate and energy policy should take into account both the advantages but also the limitations of an electricity-based energy system. Changing the fuel mix of transport from liquid fuels to electricity faces challenges in terms of technology, economic viability and access to scarce raw materials (e.g. rare earths) for batteries and motors. Despite the emergence of alternative energy sources (such as electricity), liquid fuels will continue to play an important role, particularly in providing range for mobility, because of their unmatched high energy density. These challenges have not been solved especially for long distance transport.

In addition, when considering the taxation of energy, all fuels (coal, oil, gas, and biofuels) and electricity should be taxed proportionately to their energy content. If carbon content is also to be used as a criterion, then this element of the tax should be consistent with the ETS market price. This would create a level playing field between non-ETS and ETS sectors, as well as between different fuels. Any taxation policy aimed at lowering the carbon content of transportation fuels should be implemented using the same principles and carbon price across the economy.

Within the EU Climate and Energy Policy beyond 2020, oil products should have the opportunity to compete as long-term cost-efficient energy sources in the energy mix in order to secure the stability and balance of the future energy system.

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EUROPIA represents the European Petroleum industry, the downstream sector of Europe's oil industry.

EUROPIA is an organisation whose 43 members account for almost 100% of EU petroleum refining capacity and over 75% of EU motor fuel retail sales.

EUROPIA as a leading Industry Representative aims at contributing proactively and constructively to the development of policies to safeguard the secure and sustainable manufacturing, supply and use of petroleum products by providing competent and expert advice to the EU Institutions, Member State Governments and the wider community.

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