A strategy for long-term EU greenhouse gas emission reductions

OMV Position

OMV Aktiengesellschaft

OMV's submission to the public consultation on a strategy for long-term EU greenhouse gas emission reductions

OMV Group welcomes the opportunity to provide input to the public consultation on "Strategy for long-term EU GHG emissions reductions".

Key Messages

- OMV is fully committed to the implementation of the Paris Agreement in its global context. The Paris Agreement marks a milestone in the climate change discussion and is the most important tool to tackle climate change at international level.
- OMV welcomes the European Commission's approach to make the next important step in its climate policy and to design a strategy for long-term EU GHG emissions reductions in accordance with EU's contribution to the Paris Agreement. We also do look forward to contributions of the other signatory countries being further defined as the ambitious emission reduction targets to achieve the objectives set in the Paris Agreement cannot be reached single-handedly by the EU.
- An internationally aligned climate policy with binding content and goals for all countries and industry sectors is a precondition for successfully mitigating the impact of climate change and preventing a shift of emissions from EU to other regions.
- As economies with a CO_2 emissions target are clearly disadvantaged compared to countries without such a goal, instruments such as a global emission trading scheme need to be set up for every country.
- The European (energy intensive) industry is a cornerstone for the prosperity of the European economy by providing jobs and investments in the future including R&D and new technologies. In order to safeguard this prosperity the competitiveness of the industry in a globalized economic system must be ensured. Therefore, the European energy intensive industry needs long-term planning security in order to be able to adjust and invest in a future oriented way in EU.
- OMV is committed to contributing to the achievement of the goals foreseen by the EU Energy and Climate package. However, it is necessary to ensure that the cornerstones of these policies are suitable, economically feasible, at the lowest cost for society and foster security of supply. The EU institutions have ambitiously reformed a set of key climate policies in the past year, in particular the Energy Efficiency Directive, the Renewable Energy Directive, and the EU Emissions Trading System (EU ETS).
- All future policy targets, pathways and measures do not only need to fulfil the criteria to contribute to the EU's commitment to the Paris Agreement, but also need to be based on transparent methodologies which also show the costs of different pathways in order to provide citizens and industry the full picture of future scenarios.
- OMV is convinced that all forms of energy will be needed in the future and a technology neutral approach is the basis to identify and further develop technologies in the most cost-efficient way for the society.

Industry's competitiveness and security of supply

- Implementation of legislation supporting the Paris target occurs in different speeds at global scale and must not lead to a competitive disadvantage of the European economy.
- Today, "carbon leakage" protection is established for the energy intensive industry, but covers only a part of the European economy facing global competition.
- Until a common global system is available, a balancing system shall be established at EU-level, which recognises and values the GHG intensities of imports and exports in order to display the real life cycle GHG emissions for each product and service.
- At a global scale, the EU shall take all efforts to establish a global system across all economic and private activities as soon as possible for implementing a common GHG price and/or other mechanisms.
- Within the EU, the current sector wise approach of GHG-addressing-legislation hinders cost effective optimisation of GHG mitigation. Additionally, the three headline targets on renewable energy, energy saving, and GHG saving will contradict and overlap each other in some cases leading to confusion for market participants. The development and evolution to a cross sectorial legislative set-up should be started soon, also as good example of European leadership.
- The completion of the internal European market is also needed to strengthen the competitiveness of the European Union and increase security of energy supply. For this, existing operational and commercial barriers need to be removed.
- The lived practice of inflated subsidies influence prices and do not conform to the overall target of free market and competition. As a result, the market share of ecologically harmful coal-fired power plants is suddenly increasing, while clean gas-fired power plants are becoming unprofitable. The return to liberalization is key as markets can only function in an appropriate framework without harmful subsidies that jeopardize them and leverage prices.
- Generally, there shall be no distortion of competition. Burden and risk shall not be carried by single groups but by all market participants in a fair and balanced manner. This is also true when it comes to security of energy supply. Positive incentives could motivate all market players to contribute. In this context, Europe clearly needs a commercially balanced and equitable system for renewables and gas.
- A well-functioning and connected gas market is essential for security of energy supply for industry and households. Therefore, the connectivity of EU's regions needs to be enhanced, where necessary and existing gaps in the existing gas infrastructure being closed. Furthermore the proper implementation of existing Internal Gas Market Rules across all EU Member States is an important step for more security of gas supply, competition and sustainability.
- Next to the diversification of routes, also the diversification of supply sources is an essential part for more security of supply. The support of the exploration and production of domestic gas resources e.g. in the Black Sea is in this context essential.

Innovation, research & development, and early deployment today for the technologies of tomorrow

- The European industry is a driver for innovation and offers solutions to economic, environmental and societal challenges. The key to a sustainable economy that is able to manage potential extended climate change obligations is to maximize industry's innovation capacity and willingness to invest in research and development of new technologies, especially in the field of energy. Political support, an appropriate legal framework and the consideration of economic realities for a suitable mix of technologies as well as the commitment to technology neutrality are prerequisites for the innovative strength of the industry. However, in the European Union a coordinated approach to financial resources for RD&D, which could have greater leverage than a nationalistic approach, is currently missing and should therefore be stronger addressed in future policy scenarios.
- A central sphere of action when it comes to fighting climate change is mobility. Oil in combination with sustainable and renewable fuels in all modes of road transportation could provide a significant contribution to Europe's long-term targets. However, the acceptance and use of these fuels must be harmonized across Europe on a technology neutral basis with clear legislative boundaries. Generally, innovation in this field needs to be strictly assessed because of the associated high investments. Potential Member State obligations need to go hand in hand with a stable regulatory framework that incentivizes and sets realistic objectives consistent with the market potential and all involved sectors (e.g. the automobile industry in the context of the deployment of infrastructure for alternative fuels in road transportation).
- OMV constantly invests in research and development through innovative projects. For example, OMV not only supports the use of compressed natural gas (CNG) as an environmentally friendly transportation fuel – with up to 20% less CO2 emissions and an 80% reduction in carbon monoxide – as well as liquefied natural gas (LNG) but also invests in the research and development of alternative fuels such as hydrogen, renewable fuels as sustainable biofuels, e-fuel, and co-processing, as well as recycled carbon fuels to mitigate plastic waste emissions.
- The EU should focus on new technologies, where it can gain global technology leadership and can provide high skilled jobs in the future. As one example, compared to battery technology, where global leadership lies in Asia and is hard to get close by, electrolysers and power-to-X-technologies have the potential to become an additional breakthrough technology.

Public acceptance

- The development of new technologies can only be successful if public accepts and uses it. Restrictions and bans are hindering developments and are not the appropriate tools to foster public acceptance.
- The lack of public acceptance may hinder the energy transition and cheap climate solutions, which has to be taken into account when setting regulatory measures and/or targets. Therefore, the key role of the public enabling climate change mitigation needs to be taken stronger into account than in the past.
- The public as such and each citizen too needs to be aware of their particular role and responsibility regarding the long-term reduction of greenhouse gases. A precondition for that is the increase of transparency on the GHG-intensity of products being purchased and consumed.

- Except for products required to indicate their consumption of energy and other resources, customers don't have the possibility to assess the GHG intensity of the products, including food and clothing, they are buying. Hence, to emancipate citizens in their daily buying decisions, it needs a proper labelling of GHG intensity of all goods, including information of GHG intensity of components produced outside of the EU and about recyclability of the product to support the circular economy.
- Cost-efficiency and convenience are a further crucial element to reach public acceptance. The mobility sector is a very good example for the need to provide alternatives, as the needs for mobility vary. Only if attractive alternative transport modes with competitive offers in cost, speed, and convenience are set up, a "mobility transition" could be largely backed by the population.

Full transparency and right terminology required

- In order to work out robust pathways to achieve the Paris targets, a full transparency of the underlying assumptions, approaches, and exercises done by the EU Commission must be guaranteed. As a consequence, all models, e.g. PRIMES, used and referred to should be publicly available in order to improve the scientific dispute in finding the most suited approach to achieve the targets. The policies based on this modelling have to be "future proof" avoiding unintended restrictions due to technology, costs, and any other developments which were not considered in the beginning.
- Especially, the assumptions which were considered by the EU Commission and the reasoning how and why they are taken have to be published in order to foster a critical discussion on scientific basis.
- The Paris Agreement has the goal to limit the temperature increase to maximum 2 degrees Celsius compared to preindustrial times. GHG savings are the predominant option, but it is very clear that a net GHG reduction is meant. As a matter of fact, hydrocarbons are the dominant chemical building block and energy storage in nature. Carbon in hydrocarbons is the basis of organic chemical industry. Therefore the terminology "(industrial) decarbonisation" is misleading and has to be replaced by "net GHG reduction" or "net GHG neutrality", respectively.

Policy recommendations to foster the ways towards a global action on climate change

- We are convinced that all forms of energy will be needed in future to meet growing global energy demand and climate goals at the same time. The oil and gas industry is already investing in research, development and deployment (RD&D) illustrating the dedication of the industry to contribute to the mitigation of climate change risk.
- In order to reach the European Union's climate targets gas technologies must be considered as sustainable technologies. It is widely agreed upon that in Europe the most efficient way to reduce CO_2 emissions significantly is to replace coal with gas. When natural gas replaces coal, 15 percent of total GHG emissions can be saved throughout Europe – in the electricity sector even 40 percent[1]. This positive contribution must be taken into account accordingly.

[1] Source: IHS European Power Service 2015, IEA CO2 emission from fuel combustion 2014

- Investors need a stable and innovation-friendly policy framework and they will only commit their financial resources if there is a reasonable expectation of a business case and the prospect of a profitable market. Therefore, a trajectory for regulations inducing GHG mitigation should be foreseen to achieve a common and global CO_2 market in the long run. The mobility sector, as an example, can be addressed as follows in order to value the driving energy – powertrain system:
  - In short-term, the existing regulatory framework (e.g. RED II and CO_2 Standards for Vehicles) has to be adopted pragmatically: Low GHG fuels or fuels enabling the design of higher efficient engines have to be recognised in the CO_2 Standard as alternative compliance option.
  - In mid-term, starting post-2030, the creation of cross-sectorial approaches with a single cost of $CO_{2eq.}$, e.g. for road transport.
  - The long term goal is to move towards a common $CO_{2eq.}$ price across the economy, supporting the approach to induce GHG mitigation at the lowest societal cost.
- GHG mitigation always has to include technologies for CO_2 removal. This includes biogenically bonded CO_2 by e.g. forests and algae, CO_2 capturing as source for new fuels or chemicals or to be stored underground, or any other CO_2 removal technology. Hence, these technologies need to be included compliance options in any GHG addressing legislation.
- Technologies which address GHG and waste reduction to establish a circular economy in a greater scale than today should be supported. Especially the synergy of both target contribution has to be acknowledged in the GHG saving and waste reduction legislation, provided the overall goal of waste minimization will be tackled, too.
- Digitalisation and other new and indirect technologies could play a major role in gaining higher efficiencies and in reducing GHG emissions. These technologies will most likely be implemented in a horizontal manner across many economic sectors and private households. In many cases, the benefit may not be linked to specific economic sectors, but there must be the possibility to account these measures towards the Paris target by other sector, e.g. by generating certificates for those actions.

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