

Brussels, 26 February 2013

*Statoil ASA
Forusben 50
N-4035 Stavanger
Transparency No.:
444 7605981-76
eu-office@statoil.com*

DG Climate Action
European Commission

Statoil's response to the Carbon Market Report

Statoil welcomes the opportunity to comment on the Carbon Market Report of 14th November 2012 (CMR). Statoil believes that a well-functioning EU ETS must serve as the cornerstone of the EU's climate and energy policy and be the key means of delivering GHG reductions. Providing a clear, undistorted and long-term carbon price signal will create the right incentives for forward-looking low carbon investment decisions.

In our submission to an earlier Commission consultation dated 3rd October 2012, Statoil supported the proposal to back-load the auctioning of a significant amount of allowances and called for structural reforms of the EU ETS in the longer term.

Statoil welcomes the Commission's plans to commence discussions on the post-2020 framework this year. Statoil believes that the EU ETS must be a key component of this discussion.

We observe, however, that the structural measures proposed in the CMR (Increasing the EU GHG reduction target to 30% in 2020; Retiring a number of allowances in phase 3; Early revision of the annual linear reduction factor; Extension of the scope of the EU ETS to other sectors; Use access to international credits; Discretionary price management mechanisms) do not address the period post-2020. We are concerned that the negotiations over the post-2020 framework and the EU ETS reforms seem to be going in parallel yet unconnected paths. Statoil supports the measure of retiring a number of allowances in phase 3.

Below we set out our views on how an ETS reform and a post-2020 framework can coherently be progressed.

1. The need for short-term intervention as the first step

The current and growing imbalance in the supply/demand equation poses a threat not only to the credibility of the EU ETS itself, but also to the merit of common and market-based instruments in climate policy. Statoil is concerned that without a short-term intervention in the EU ETS, we are likely to see additional overlapping policy measures that aim at addressing GHG reductions, which will not be cost-efficient.

Implementing the back-loading proposal would signal the EU's commitment to the ETS, and provide additional time for permanent measures (such as retiring allowances) to be passed to address the current oversupply situation.

However these actions serve only to 'reset' the existing system and hence need to be accompanied by structural reforms to ensure the better functioning of the EU ETS beyond 2020, taking into account its role in the wider policy framework.

2. Principles for a post-2020 efficient climate policy

Statoil encourages the Commission to go beyond the current scope of the Carbon Market Report and come forward with concrete legislative proposals for the post-2020 period that adhere to the following principles:

- **A stable, predictable legislative framework:** The level of ambitions post-2020 should be aligned with Europe's 2050 climate objectives, while ensuring the competitiveness of European industries.
- **Linkages to international negotiations:** Post-2020 policy proposals should reflect progress made in the global climate negotiations to ensure the competitiveness of European industry. Reforms to the EU ETS must not impose barriers to linking with other carbon markets or to creating a global carbon price, since this is crucial both for climate action and EU competitiveness.
- **Cost efficiency through use of market-based mechanisms:** The EU ETS should remain the central tool of EU climate policy, and the objectives of other policies and instruments must be consistent with it.

Statoil believes that a single carbon target and the availability to use offset mechanisms are crucial in ensuring cost efficiency. International credits provide needed flexibility in the scheme allowing European industries to comply through lower cost abatement options in non-EU countries. Offsets also play a positive role, supporting technology transfer and partnerships between stakeholders from different countries and connecting emerging carbon markets across the world.

In principle, Statoil supports the broadening of the EU ETS to other sectors, as a larger scheme should provide a more robust carbon market and more opportunities for low-cost abatements for compliant industries. Impact assessments should be carried out for new sectors. We do acknowledge that for a few sectors (e.g. the building sector) other measures as standards might be more efficient.

- **Targeted, publicly financed R&D and market scaling support** must stimulate new and emerging energy technologies. This can best be achieved by improving the research and innovation programmes at the EU and national level. Funding provided must be adequate, but limited in time. Once technologies are matured, the financial support should end and these technologies should compete by their own merits relying on the carbon market. In this way it can be ensured that technology targeted support does not stand to undermine the functioning of the ETS.

3. Addressing the lack of supply flexibility in the EU ETS post-2020

In typical commodity markets, supply adjusts to changes in demand. In contrast, the supply in the EU ETS is rigid and set well in advance: the cap for 2013 and beyond was largely based on national allocation plans for the second trading phase which were in turn based on historical emissions. As a result, supply has been unable to respond to shifts in demand, such as the economic crisis and larger-than-expected influx of international credits.

The drop in demand of recent years was further exacerbated by the overlap with the EU Renewables and Energy Efficiency targets and regulatory changes connected to the transition to the third trading phase covering the period up until 2020. Phenomena that cause paradigm shifts in demand, such as economic recession and technological innovation, may occur in the future, thus creating uncertainty which a more flexible supply under a fixed cap would address.

We believe that supply flexibility, when combined with a framework setting out clear rules and criteria for when and adjustments would be made, would provide the market with predictability in the long-term. Over the last months, several options have been proposed on how to improve the supply flexibility of the EU ETS post-2020. Some options could be investigated further, e.g. *a rolling emissions cap* (as implemented in Australia), *a baseline*



adjustment (following set rules and a specified formula such as the provisions already in Article 29a of the EU ETS Directive) and *an oversupply safety valve*.

A handwritten signature in black ink, appearing to read "H. Norheim".

Hege Marie Norheim
SVP Corporate Climate

A handwritten signature in black ink, appearing to read "Rune Bjørnson".
Rune Bjørnson
MPR NG SVP