

Position Paper on the Review of the EU ETS Directive

June 2007



OGP is the unique body that represents, before the EU institutions, companies and associations engaged in the exploration and production of oil and natural gas in Europe. It participates in the Berlin Fossil Fuels Forum as well as the Madrid European Gas Regulator Forum and it is the prime interlocutor for energy policy, environmental and other issues related to this industry.

OGP member companies' installations in the EU have taken part in the EU ETS since its start in 2005. We support the use of well-designed and well-functioning market-based mechanisms, which help to reduce the emissions of CO₂ in the most cost-effective way.

Summary

The International Association of Oil and Gas Producers (OGP) wishes to see that the review of the EU ETS Directive will result in:

1. Allocations of allowances free of charge;
2. Greater certainty and predictability of future greenhouse gas emissions requirements;
3. A more pragmatic approach toward monitoring of emissions;
4. Full eligibility for CCS projects.

Allocations of allowances free of charge

Internationally competing oil and gas companies should continue to receive the bulk of their allocations free of charge until there is a worldwide carbon valuation.

Oil and gas companies, operating in the EU, are competing with oil and gas suppliers from outside the EU that are not exposed to additional production costs related to their emissions. Additionally within companies, investments in the EU compete for corporate funds with those outside with no cost of carbon. A shift away from free allocation of allowances will add to the cost of oil and gas produced in the EU, reducing its relative attractiveness for investments and thus future EU indigenous supplies to the market.

The European Commission should remain aware that the activities of companies engaged in the exploration and production of crude oil, natural gas and natural gas condensate do not offer major mitigation potential. Due to the growing

maturity of oil and gas fields in the EU more emissions will be generated in bringing the remaining and still significant energy resources to the market to meet the EU's growing energy demand and to continue to make its important contribution to the EU security of supply.

OGP has a clear preference for the continuation of the current system with free distribution of the bulk of allowances to oil and gas exploration and production installations by means of a top-down allocation process, based on historic emissions. In our experience, the allocation methodology for incumbent installations has worked. More importantly, the process is now well understood and offers a degree of predictability compared to the untried and untested alternatives of benchmarking and auctioning. We believe that the assertions around perverse incentives have been greatly exaggerated. Finally, by the time the National Allocation Plans for Phase III come to be developed, Member States and the European Commission will have an extensive set of verified emission data at their disposal on which to base allocations.

Greater certainty and predictability of future greenhouse gas emissions requirements

Climate change can only be tackled effectively in a worldwide effort in which the broadest possible participation needs to be ensured. All major emitters need to be included. OGP welcomes the EU engagement in securing global support. Consequently, OGP is of the opinion that the use of Emission Reduction Units (ERUs) from Joint Implementation (JI) and Certified Emission Reduction units (CERs) under the Clean Development Mechanism (CDM) and their successors should not be restricted, so as to enable EU participants to reduce emissions in the same cost-effective way as other parties to the Kyoto Protocol (and its successor).

Long-term clarity about the post-2012 regime is essential. For an industry which is characterised by long lead times of up to 10 years for large capital investments, it is clear that if investment in abatement is to be encouraged, oil and gas producers require greater predictability in respect of longer-term greenhouse gas emission reduction targets and future allocation outcomes than currently available.

OGP believes that there is merit in considering time horizons for cap setting of 10 years or more combined with allocation periods of around 5 years in the EU ETS. This would give longer term legislative certainty with the flexibility of mid-term corrections in either direction, within carefully and transparently predefined limits.

In case the EU decides to set a limit on the use of CDM and JI (or their successors) OGP is of the opinion that certainty is required about the total allowed percentage of CDM/JI credits in the EU ETS.

A more pragmatic approach toward monitoring of emissions

A pragmatic and workable monitoring system is a prerequisite if the scheme is to include third country installations and/or trading schemes without unnecessary delays.

OGP member companies have encountered a number of unintended consequences in the shape of onerous requirements. The current revision is the appropriate place to resolve these issues satisfactorily.

- *Site visits*

The Directive (Annex V.7) refers to a two stage verification approach: a *strategic analysis* to determine “all the activities and their significance for emissions”, and a *process analysis* for “verification of information submitted shall, where appropriate, be carried out on the site of the installation.” OGP believes that the final arbiter of “where appropriate” should continue to be the competent authority where there is a difference of opinion between the verifier and installation operator. OGP believes that this strikes the correct balance between cost-effectiveness and regulatory certainty.

- *Unnecessary burdensome requirements*

There are several areas in the revised Monitoring and Reporting Guidelines (MRG), where there is over-regulation. We take this opportunity to provide a number of specific examples, based on the experience from OGP member companies:

- A) Section 13.5.3 of the M&R decision, which covers On-line Gas Analysers and Gas Chromatographs, contains more onerous requirements than are required for fiscal measurement of sales gas. Given that the exposure, caused by any mis-measurement of sales gas, will be much higher than for ETS reporting, these requirements do not seem reasonable.
- B) Another area is around the benefits of metering improvements where some authors spuriously equate reductions in uncertainty with reductions in emissions.
- C) A third example is that operators sometimes have problems acquiring the data about the diesel use of cranes on board platforms. Operators can also encounter difficulties in ISO17025 lab accreditation.
- D) Determination of emission factor for flare, tier 3 (for Cat B + C installations) is not feasible if it is to cover “abnormal events” as specified in section 4.1, fourth para, p.5. Hence this should be taken out of the MRG to avoid the burden of proof.
- E) The application of the definition of “Cost effectiveness” (section 3, p. 4) imposes an almost impossible burden of proof on the operator. It should

suffice to comply with the tier specified in table 1, section 4.2.2.1.4 unless the competent authority requests a higher tier.

- F) The requirements for retention of information (section 6) are unnecessarily burdensome. It should suffice to retain the annual emission report and a copy of the monitoring plan for each year after verification of the accounts.

Both the European Commission and the Member States have clearly recognised the need to reduce the regulatory burden on business and take a pragmatic approach. This needs to be taken forward* in the revision of the EU ETS Directive.*

Full eligibility for CCS projects

OGP welcomes the work the European Commission is undertaking to bring CCS projects into the EU ETS as well as the preparation of a proposal for a regulatory framework for CCS.

OGP would like to underline the importance of explicitly recognizing in the EU ETS greenhouse gas emission reductions from carbon dioxide capture and storage (CCS) projects.

Decisions made on CCS for Phase II (2008-2012) should be decoupled from those for Phase III (2013-....). For Phase II there is limited flexibility under the current Directive of opting in a CCS installation, and there is likely to be but a small number of CCS projects, almost all of which will be pilot/demonstration. In Phase III, there is the option of revising the EU ETS Directive to recognise CCS specifically, thereby removing the uncertainty around opting in CCS projects by *comitology*, and recognising that the long term structure of CCS projects is likely to be increasingly fragmented with a network of multiple sources and multiple storage sites.

For more information please contact:

Diederik Peereboom
Manager EU Affairs
Bd du Souverain 165
B-1160 BRUSSELS
Tel : 02 566 9155
Email : Diederik.Peereboom@ogp.be
Internet : www.ogp.org.uk

* The European Commission emphasised at the first ECCP II review meeting (8-9 March) the importance of practicality and simplicity of the ETS.
In March 2007, the European Council has also agreed that the administrative burdens arising from EU legislation should be reduced by 25% by 2012.