

CLIMA-auction-backloading@ec.europa.eu

European Commission
Directorate-General Climate Action
Unit B1 – Implementation of ETS

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Statoil's response to the consultation on review of the auction time profile for the EU Emissions Trading System

Statoil welcomes the opportunity to express its view as part of the "Consultation on review of the auctioning time profile for the EU Emissions Trading Scheme (EU ETS)." Statoil believes a well-functioning EU ETS, driving development of low carbon technologies, energy efficiency innovation and fuel switching, should remain the cornerstone of the EU's goal of securing a low emission economy in 2050 and supports the Commission's efforts to strengthen the system.

1. Support for short-term intervention

The EU ETS provides a predictable framework for industry in the long term, rewarding the most carbon efficient solutions, and achieving targeted emission reductions in a cost-effective manner. The EU ETS has succeeded in both creating an EU-wide price on carbon emissions and ensuring that approximately 45% of the EU's GHG emissions are capped at a level consistent with the adopted climate targets. As the largest and most active carbon market in the world, it is serving as a blueprint for emerging cap and trade schemes globally. The planned harmonisation and linking with other trading schemes would lead to an international CO₂ price, thus creating a level playing field for industries.

However, 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 in general. The Commission, in its Staff Working Document 2012, expects the oversupply at the end of 2020 to reach 1.4 billion tons, with more recent figures nearing even 2 billion tons.

Postponing any action to strengthen the system would risk its fragmentation through the implementation of national policies and its marginalisation through the adoption of other EU targets. This risk is increased by the fact that the largest influx of allowances is expected to enter the market in 2012 and 2013, primarily due to changes connected to the transition from phase 2 to phase 3.

Short term measures are necessary, and back-loading seems to be the only measure that is politically feasible today. Therefore, Statoil believes that the back-loading of allowances is a required step that the Commission should take.

There are a number of characteristics back-loading should have in order to be effective:

- It should be significant: given the size of the current oversupply, back-loading of less than one billion allowances will not have a substantial effect;
- The number, timing and terms of back-loading should be certain and clearly communicated to the stakeholders without distressing the market;
- Back-loading should be linked with long-term EU ETS structural reforms.

2. Link short-term intervention with EU ETS structural reform and post-2020 EU climate policy

Statoil recognises that the back-loading of allowances would not do away with the oversupply in the market if it is not followed by structural measures. As such, back-loading gives policymakers time, though limited, to improve the EU ETS with longer-term reforms and to agree on EU climate policy beyond 2020.

Back-loading would not do away with the root causes for the oversupply either:

- A lack of flexibility of supply: while the EUA demand varies with a number of factors, supply is inelastic. The current supply was decided at the beginning of phase 2 according to a number of criteria, including economic forecasts. Financial crisis was not expected, nor was an increase in the offsets supply. The cap was not designed to absorb large downward changes in demand.
- Overlap with other policies: the goal of the EU climate policy is implemented through different policy measures (Energy efficiency, Renewables, ETS, etc.). Their interaction and interdependence were not sufficiently assessed for setting the level of ambitions in Phase 3.

Statoil believes that any short-term intervention should be linked with proposal for long-term structural reforms of the EU ETS and post-2020 EU climate policy. This discussion on the long-term policy should be driven by the following principles:

- The level of ambitions post-2020 should be aligned with Europe's 2050 decarbonisation goals, while ensuring the competitiveness of European industry.
- The EU ETS should remain the central tool of EU climate policy, and other policies objectives and instruments (such as Energy Efficiency Directive, Renewable Directive, Fuel Quality Directive) must be consistent with it.
- Reform options that would make the supply side of the EU ETS more flexible and responsive to the demand should be considered, while maintaining transparency and credibility of the market.
- In reforming the EU ETS, linking with other schemes should be encouraged. Currently, regional emissions trading schemes are being established with a view to creating an international CO₂ price.
- The availability to use offsets mechanisms must remain. These are important for two primary reasons: (i) they maintain the cost-efficiency of the scheme; (ii) they reduce greenhouse gas emissions and increase the transfer of technologies.

Statoil awaits the Commission's report on the functioning of the carbon market, which would outline the options for longer-term measures, and encourages the Commission to propose a post-2020 EU climate policy that will rely on a well-functioning EU ETS and will ensure more certainty for European industry.

Kind regards,



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