Public consultation in preparation of an analytical report on the impact of the international climate negotiations on the situation of energy intensive sectors

International Association of Oil & Gas Producers

Response from the International Association of Oil & Gas Producers (OGP)

1. In your opinion, how have key indicators of the risk of carbon leakage (such as exposure to international trade, carbon prices etc.) for the EU energy intensive industry changed since the adoption of the climate change and energy package implementing the EU's unilateral 20% emission reduction target at the end of 2008?

For OGP there has been no significant change in the key Phase 3 indicators for carbon leakage; the strong exposure of the upstream oil and gas sector to international trade is unchanged; and while carbon prices are currently depressed due to the recession we would expect these to rebound once economic growth resumes. It should be noted in this context that prices for oil and gas are set internationally with the vast majority of global supplies coming from countries with no carbon reduction policies in existence or in prospect. This gives the oil & gas sector in the EU no opportunity for carbon price pass-through to end consumers.

2. Do you think that the outcome of Copenhagen, including the Copenhagen Accord and its pledges by relevant competitors of European energy-intensive industry, will translate into additional greenhouse gas emission reductions sufficient to review the list of sectors deemed to be exposed to a significant risk of carbon leakage? If so, how and why?

The Commission's analysis demonstrates that the current pledges are in no way comparable to the commitment of the EU. In many cases these pledges are not legally binding. Even the high end of pledges averages at less than the EU's unilateral 20% commitment. To mitigate the risk of carbon leakage exposure, parties under the accord would need to firmly commit to reducing greenhouse gas emissions backed up by national programmes comparable to those specified in the revised EU ETS Directive. Specifically, the competitor countries for the oil and gas sector have not pledged reductions that are in any way comparable to the EU commitment and we firmly believe that the oil and gas sector must remain on the list of sectors exposed to carbon leakage for the foreseeable future.

3. In your view, what would be a compelling new general economic or other factor which would require a change of the level of free allocation to sectors deemed to be exposed to a significant risk of carbon leakage?

The most significant factor for OGP members is the targets and their implementation in countries which supply the majority of the world's crude oil and natural gas requirements via international markets. OGP believes that these countries are currently most unlikely to institute ambitious or comparable GHG reduction policies and programmes.

Bd. du Souverain, 165 4th Floor B-1160 Brussels (Belgium)
Tel: +32 (0)2 566 9150 Fax: +32 (0)2 566 9159 Internet: www.ogp.org.uk
E-mail: Beate.Raabe@ogp.be Christopher.terry@ogp.be
Christine.Glorieux@ogp.be Veronique.Luyten@ogp.be Annabel.holroyd@ogp.be
A company limited by guarantee. Registered in England, No. 183064.

4. Do you consider free allocation of allowances as sufficient measure to address the risk of carbon leakage, or do you see a need for alternative or additional measures?

OGP has a strong preference for free allocation to address the risk of carbon leakage. However given that there is no free allocation of allowances relating to the production of electricity, this is a tough target to achieve as operators of upstream oil and gas installations are already faced with the need to buy, on average, some 50% of their allowances just to cover the electricity component of emissions. The carbon leakage mitigation measures are unable, as currently formulated, to assist with the impact of this constraint. Moreover, offshore installations, with the exception of a few located close to shore, cannot but generate their own electricity because of their distant location. The severity of the step change reduction in free allocation in Phase 3 for the oil & gas sector is amongst the greatest of any sector in the scheme. OGP is concerned that this will lead to early decommissioning and hence sub optimal recovery of indigenous EU hydrocarbons with wider implications for Security of Supply.

About OGP

Established in 1974, OGP is the single association representing companies and associations engaged in the exploration and production of oil and natural gas both at global and at EU level, with offices in London and Brussels. At EU level, OGP represents around 30 members who are active in Europe. Globally, OGP's membership consists of about 70 companies and associations, accounting for more than half of the world's oil output and about one third of global gas production. OGP shares best practice in the area of health, safety and the environment, operations and engineering, and represents the industry before international organisations, such as the UN, IMO and the World Bank, as well as regional seas conventions, such as OSPAR.

For further information, please contact:
Beate Raabe
International Association of Oil & Gas Producers
OGP Europe
E-mail: Beate.Raabe@ogp.be
Tel. +32 (0)2 566 91 50