

## **Proposals for a climate and energy policy framework in the 2020-2030 period**

Following the publication of the European Commission's 2030 Communication, Statoil calls on Member States to support a technology-neutral and market-based energy and climate policy framework based on a single carbon target.

### **A single 2030 target**

We continue to believe Europe's policy goals are best achieved through a clear and predictable framework based on a single economy-wide greenhouse gas (GHG) emissions target, with a strengthened EU ETS as the main policy measure. We therefore welcome the EC's proposal to set a GHG reduction target of at least 40% relative to 1990 levels. This places the EU on the path to reaching its 2050 objective of an 80-95% reduction. A revision upwards of this target should reflect actions taken by the EU's major trading partners, and should open up for the use of UN-approved offsets.

We welcome the greater attention being paid by Member States and the EC to the issues of cost-effectiveness and competitiveness. Both are best guaranteed by policies that promote competition among energy sources instead of prescribing a specific energy mix. Statoil does not support specific technology targets, including the EU-wide renewables (RES) target for 2030 as proposed in the 2030 Communication. Moreover, we are concerned that the 27% EU-wide renewables target proposed by the Commission was not analysed in the 2030 Impact Assessment. We believe that mature RES should be directly supported by the pricing signal provided by a robust EU ETS, alongside targeted (and time-limited) funding provided for R&D and market-scaling of immature low carbon technologies, such as off-shore wind and Carbon Capture and Storage (CCS).

We note the EC intends to consider measures on energy efficiency following its assessment of progress on the Energy Efficiency Directive. Any such measures should be fully coherent with the EU ETS to ensure minimum distortion of the internal energy market.

We also note that the analysis of the 2030 policy options was based on a single forecast for fossil fuel prices and did not consider alternative price scenarios. Doing so would have underlined the benefits of a technology-neutral single carbon target over other approaches.

We support the proposal to introduce guiding indicators to cover a broader range of energy and climate issues. This would allow the development of common metrics for a better informed debate among legislators and stakeholders on energy objectives such as competitiveness and security of supply. They should not however lead to separate targets, which would add complexity to the energy and climate framework.

### **Making the EU ETS more robust**

As we believe that the EU ETS should be the main policy tool in the 2030 package, Statoil supports the increase in the annual linear reduction factor. The tightening of the cap from 2021 for emissions from ETS sectors corresponding to the 40% GHG target should provide longer term certainty to participants and potential investors.

Statoil also believes greater supply-side flexibility is needed to allow the EU ETS to respond to demand shifts, and also tackle the current oversupply. Doing so would move the EU ETS towards a market driven by scarcity in the long-term and provide the incentive for low carbon investments. To this end, Statoil would welcome action before 2020. We also want there to be clear rules to ensure market confidence and prevent undue political influence. We therefore support the principle behind the EC's proposed supply reserve but we believe it needs further development to ensure it is set up appropriately. A particular issue is that surplus allowances may be allowed to build up indefinitely in the reserve which would damage market predictability.

Until the EU's actions on climate change are met equally by its trading partners, we would support the continued use of free allocations of allowances to support the competitiveness of European industry. We would also support measures to refocus such protections to sectors truly at risk of carbon leakage.

### **The importance of natural gas to 2030 and beyond**

The EC's 2050 Energy Roadmap stated that natural gas is vital to Europe in delivering on its energy and climate ambitions. Statoil supports this view, and urges Europe to make full use of its ability – in power generation, heating, industrial applications and transport – to reduce emissions while safeguarding growth and competitiveness.

Statoil fully agrees that one aim of the EU's energy policy must be to ensure secure supplies of competitively-priced energy. But security does not necessarily mean greater independence, particularly if it comes at a high cost which harms competitiveness. We believe the Commission's use of a balance in trade metric for energy products is unhelpful. The Euro area regularly reports an overall trade surplus, due mainly to high exports of manufactured goods, and cost-effective energy imports are one contributory factor to this.

In the period after 2030 the deployment of CCS, including as retrofits to gas power plants, may be crucial to Europe in achieving its longer term (2050) energy and climate ambitions. While in the long term CCS should be supported like all other technologies by the carbon price realised through the EU ETS, it requires financial support and additional incentives for the demonstration and early deployment phase. While we welcome the EC acknowledging the importance of CCS, concrete steps must now be taken to drive its development.

### **Completing the Internal Energy Market**

The Commission's *Energy prices and costs* report describes an Internal Energy Market that remains distorted. While wholesale prices have remained broadly the same, taxes and levies have increased, contributing most to rising retail prices. But in itself this does not fully describe the situation - the effects of increased subsidies for renewables generation and other national measures are categorised inconsistently between network costs and taxes and levies, making it difficult to get a clear picture. Statoil supports efforts to remove such distortions and integrate better national energy markets. Where gas markets have been liberalised and where the market conditions provide robust liquidity, Statoil has moved to hub-based natural gas contracts.

### **Conclusion**

Statoil believes the setting of a single 2030 target on GHG emission reductions, with the EU ETS as the central policy tool, would result in a clear and coherent 2030 policy framework. In turn, this would keep the EU on track to achieve its long term climate goals, and create the predictability and reduced regulatory risk needed for long term infrastructure investments. It would also limit policy inefficiencies and go some way to addressing concerns about the affordability of energy to households and industry.