

IOGP recommendations for a reliable and transparent governance system of the Energy Union

The International Association of Oil and Gas Producers (IOGP) acknowledges that the establishment of a good governance system is a very complex task and requires clear policies and objectives, monitoring of their implementation and engagement of various stakeholders.

IOGP - representing companies producing half of the world's oil and a third of its gas – would like to contribute to this debate by proposing six recommendations that can help the Commission and Member States in further defining the Energy Union governance.

Our suggestions contribute to the development of a reliable and transparent governance system what is in line with the European Council views.

1. When defining security of supply, focus on resilience of the energy system rather than on the flawed concept of energy independence

- Reduced import dependency is not a desirable goal in itself as it does not necessarily lead to lower energy prices or improved competitiveness. Such arguments also defy the efforts of the World Trade Organisation and those of the EU to negotiate Free Trade Agreements with other countries and regions.
- Using indicators - such as “energy dependence” - to measure security of supply reduces complex phenomena to very simple terms that is not appropriate for this multidimensional issue. Indicators are not able to assess the energy system’s response to adverse events or to provide insights on the key issue of costs and benefits of other available options.
- In the European gas market, diversity of supply for both routes and sources has increased over the last 10 years, contributing to security of supply and benefiting consumers.¹ Regions that have been producing for decades (e.g. North Sea, the Netherlands) still have considerable potential.
- Exploration for new resources such as the Mediterranean, the Black Sea and natural gas from shales should be supported. We encourage EU policy makers to avoid legislation which may have a negative impact on further exploration and production of European oil and gas, such as the Hydrocarbons BREF.
- Europe is within economic distance of 70% of global gas resources and already has an extensive and well-established network of gas infrastructure, including many LNG regasification terminals, as well as various long-haul pipeline connections for the North, East and South.

2. Regular information exchange among Member States will be key to achieving solidarity

- Europe is suffering from record-low investment in the exploration for new oil and gas reserves. Despite still significant potential for discoveries, every year fewer wells are drilled, leading to lower indigenous production. If Europe is to maximise its economic production of oil and gas, more attention should be paid to fostering a business environment that attracts investment and recognises the importance of exploration in delivering new sources of energy supply. For these reasons, the Commission and Member States should work together to help address public acceptance issues, a challenge facing all energy sources.
- When Member States make energy policy decisions without taking into account their impact on neighbouring States, the ability to complete the internal market, enhance system efficiency and overall competitiveness of the European economy is undermined. For instance, the variety of capacity mechanisms being developed nationally risks fragmenting the power markets of Europe.
- For these reasons, it is very important to arrange a regular exchange of information among Member States on their upcoming legislation, assess potential risks and find appropriate solutions that will stimulate further building of the integrated energy market and also contribute to the development of indigenous energy sources. In this respect, the regional initiatives such as the Baltic Energy Market Interconnection Plan (BEMIP) can contribute to enhancing the dialogue between Member States.

¹ In 2013, 55% of the EU gas consumption was supplied by EU Member States and Norway.

3. The progress on the integration of the European energy market needs to be measured and the established reporting should be an integral part of the governance system

- IOGP strongly supports the completion of the Third Energy Package and Internal Energy Market, and considers it a key tool to promote the EU energy policy.
- The Energy Union governance should ensure greater transparency in the composition of energy costs and prices by developing regular monitoring and reporting, including impacts of energy costs and prices on competitiveness. Public interventions such as regulated tariffs, energy taxation policies and the level of public support deserve particular attention, as well as their impact on pricing mechanisms, including electricity tariff deficits.
- The Directives adopted within the Third Energy Package include a number of monitoring and reporting duties from Member States. Additionally, the Commission publishes an annual progress report on the internal energy market for electricity and gas, and the implementation of EU law. It is important to avoid overlaps between the monitoring required by the Directives/Regulation of the Third Energy Package and the future governance system.

4. National plans should also include information on the share of public support allocated to R&D and Innovation in the field of energy

- Innovation is a key driver to achieve the objectives of the Energy Union. Technological development will significantly increase the options available and, over time, will bring down the cost of achieving these objectives. It is important to provide support to all promising energy technologies, but that support should be limited in time and size. Subsidies, or other forms of public support such as mandated transfers, should stop once a given technology is mature, proven and capable of being commercially deployed at scale, for example onshore wind and solar.
- To increase the transparency of support schemes and also to assess public contribution the Research, Development and Innovation in the energy sector, it is important to include these details into the national plans.

5. Member States should clarify, in their national plans, the role that they foresee for natural gas, in their energy mix

- This is quite crucial for sending signals to encourage required infrastructure investments. Natural gas will be an important component of the EU's energy market. Rolling out renewables at scale in Europe will require a simultaneous increase in natural gas infrastructure and lead to greater demand, as gas is a cleaner and more cost effective complementary fuel for variable wind and solar power generation.
- Switching from coal to gas in producing electricity is a significant opportunity to reduce GHG emissions. Gas emits up to 60% less CO₂ than coal (and even more than 2/3rd less compared to lignite) when used in power generation. Moreover, natural gas could be used in certain segments of the transport sector, in particular to help the shipping industry to meet more

stringent emissions targets. Using LNG as a marine transport fuel will reduce SOx emissions by 90%-100% and NOx by 60% and CO₂ emissions by up to 25%.²

6. Keep the process simple and transparent

- To reduce complexity and ensure greater cost-effectiveness, in October 2014 the European Council endorsed a binding EU target of a domestic reduction of at least 40% GHG emissions by 2030 compared to 1990. IOGP believes that a single GHG target is the most appropriate means to encourage the necessary investment in the drive to reduce emissions and that we need to rely on the market to select the most cost-effective solutions to achieve this target. The European Commission has also proposed a 27% renewable target binding at EU level and **we would recommend such target isn't translated into national ones. We believe this will unnecessarily complicate the 2030 policy.** Based on the national plans, the Commissions could assess whether the EU as a whole is on track to reach the main GHG target.
- The contribution of various measures, including the Energy Efficiency Directive and the ETS Directive, to reach the reduction of GHG emissions need to be clearly outlined. In order to bring a competitiveness angle into the process, it would be useful to understand the costs of implementing each measure and what the main challenges and barriers to comply with them would be. Once the reports are submitted to the Commission, **a careful assessment** is required.
- To facilitate the process of reporting on the Energy Union activities, as a first step the Commission – together with Member States – could **develop a common template** for “national plans for competitive, secure and sustainable energy”. Within the template, the Commission should require Member States to provide information on how they plan to achieve their national GHG emission targets, as they will be established by the Effort Sharing Decision.

Conclusion

To meet demand of reliable and affordable energy, to remain competitive and to fight energy poverty the future EU policy will have to attract investments in all energy sources, including oil and gas. For instance, Europe requires more than \$2 trillion in power sector investment to 2035.³ Alongside vigorous continued expansion in low-carbon generation, around 100 GW of new thermal capacity needs to be added already in the next ten years. EU policy makers should therefore focus on the resilience of the energy system, including diverse supply, rather than on the flawed concept of “energy independence”. We believe this is the criterion Member States should follow in drafting their national plans.

² “A review of present technological solutions for clean shipping”, Clean North Sea Shipping, 2011, p.6 and 8.

³ World Energy Investment Outlook, 2014, IEA.