



International Association of Oil & Gas Producers

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**OGP response to the public consultation
on draft Guidelines on environmental and energy aid for 2014-2020**

The International Association of Oil and Gas Producers (OGP) is composed of the world's leading publicly-traded, private and state-owned oil and gas companies, industry associations and major upstream service companies. OGP members produce more than half the world's oil and about one third of its gas.

A liberalised, fully integrated and completed Internal Energy Market is essential for a level playing field for all energy sources to compete with a market-based and technology-neutral approach. While a transitional support structure for R&D should be designed to develop promising new low-carbon technologies, political intervention in energy markets increases uncertainty for investors and reduces investor confidence in the price signals on which investment decisions rely. This exacerbates the difficulties in making investments in Europe. Financing projects on the basis of subsidies is not sustainable and leads to damaging retrospective changes.

OGP recognises the efforts already made by the Commission to complete the Internal Energy Market and believes that the draft Environmental and Energy State Aid Guidelines for 2014-2020 ("the draft guidelines") play an important role in this respect. Nevertheless, improvements to the draft guidelines are one of many avenues the Commission needs to pursue to achieve a well-functioning Internal Energy Market.

In this context, we recognise the Commission's attempt to minimise and coordinate public interventions in the European market and there are several features of the draft guidelines we support:

- We welcome the **principle of transparency** entrenched in paragraph 109. OGP believes it is important in the context of a level playing field that the amount of aid received and its beneficiaries are known and the relevant information is easily accessible. This should hold true both at the national and European level.
- OGP also acknowledges the fact that EU has a preference for schemes that are market driven. While feed-in premium schemes expose RES to market prices, they nevertheless remain a subsidy.
- Furthermore, OGP appreciates that the draft guidelines aim to **integrate renewables into the market** to a greater degree. In particular, OGP welcomes that the draft guidelines:

- Require that deployed technologies will have to compete for support through a bidding process.
- Apply a standard balancing regime for renewables, though, this should not be limited to circumstances where *competitive intra-day markets exist*. This proposal risks reducing the likelihood of achieving a competitive balancing market by not obliging all parties to participate.
- Attempt to distinguish between deployed and less deployed technologies at the EU level in order to increase the flexibility of the support system.

Nonetheless, we would like to raise some concerns:

- OGP is concerned that the draft guidelines fail to uphold the principle of technology neutrality, particularly in the section dedicated to generation adequacy. The draft guidelines state that payments “*in principle should not reward investments in generation from fossil fuel plants*”. It is important to separate generation adequacy and environmental/climate objectives. For the latter, an appropriate EU level instrument already exists - ETS.
- In order for gas to play its part in reducing CO₂ emissions and providing flexible back-up to variable renewables, investment in gas projects needs to be attractive. This requires stable market terms and a level playing field between technologies and fuels. The presence of increasing numbers of intermittent generators in the market leads directly to a need for generation adequacy provisions. Ideally, electricity markets should evolve such that at least for deployed technologies all of the associated back-up and network costs should be covered by such generators in order to maintain secure electricity supplies. When the market is disproportionately distorted by preferential support for renewables (including priority dispatch embedded in the Renewables Directive 2009/28/EC), the carbon price signal is undermined in the EU ETS and it may be necessary to introduce a capacity payment regime in order to maintain the gas option in the market.
- OGP also strongly supports the requirement to allow cross-border participation and to avoid export restrictions and negative effects on market coupling.
- We also recognise the need to support R&D to bring other promising low-carbon technologies to market, but all energy sources should be integrated into the market and allowed to compete under normal market conditions, without subsidies (including system connection, balancing cost and exposure to price risk) as soon as possible. This would create a level playing field between fuel sources, and provide certainty for investors in energy production, including renewables. In fact, production subsidies¹ for all fuels should be phased out. In doing this, cost-effective renewables will compete with conventional energy sources, and a level playing field amongst low-carbon and other energy sources will be achieved via the carbon price.
- While CCS is a low-carbon technology, the draft guidelines fail to grant it the same level of support as they do to renewables, giving the impression that the Commission is giving

¹ OGP does not accept the concept of tax reliefs as “subsidies” particularly when associated with tax regimes and rates significantly in excess of those levied on other industries. The deduction of business expenditures for tax purposes is a fundamental part of a normal tax regime.

preferential treatment to renewables over CCS. Again, this does not provide a level playing field, more specifically:

- The acknowledgement of CCS as an environmental-protection technology should be worded consistently throughout the document.

Regarding **applicability of the guidelines and transitional measures**, we believe that the Commission should ensure smooth transition from the current guidelines to the next set. However, in our view the provisions, which are in place, fail to ensure a clear transition, thereby undermining regulatory certainty for investors in low-carbon technologies. While the guidelines should not be applied in any case retroactively, there should also be a clear path to their full implementation. The current proposal for RES support schemes, leaving it up to Member States to change their schemes, does not offer the legal certainty and visibility.

Overall, OGP believes that the draft guidelines are a step closer towards the completion of the Internal Energy Market and a post-2020 framework based on a technology-neutral and market-based approach, though there is still some room for improvement.

***About OGP:** Our membership spans the globe and accounts for more than half of the world's oil output and about one third of global gas production. We foster cooperation in the area of health, safety and the environment, operations and engineering, and represent the industry before international organisations, such as the UN, IMO and the World Bank, as well as regional seas conventions, such as OSPAR, where we have observer status. OGP Europe in Brussels represents OGP members who are active in Europe at EU level.*

***Brussels office:** Bd du Souverain, 165 - 4th Floor, B-1160 Brussels, Belgium Tel: +32 (0)2 566 9150 Fax: +32 (0)2 566 9159 e-mail: reception@ogp.be*