

August 2018

## **IOGP response to the European Commission's package on sustainable finance: call for a "Talanoa Platform" to guarantee a smart, inclusive and technology-neutral taxonomy**

### **Key points**

The International Association of Oil & Gas Producers (IOGP) is following with great interest developments in the area of sustainable finance and appreciates the opportunity to provide our input at this stage. We are convinced that the following recommendations will contribute to the establishment of a robust, credible, efficient and technology-neutral taxonomy to reach its goal i.e. encouraging the needed investments to address the risks of climate change and other pressing global challenges highlighted by the United Nations (UN) Sustainable Development Goals (SDGs):

- Establish a flexible approach towards defining "green/sustainable projects" **by developing a graduated rating scale** instead of a binary and simplistic approach for the "taxonomy".
- In the upcoming metrics, consider the socio-economic impact of a given investment: competitiveness, total government revenues and job creation are main prerequisites to create a prosperous European Union, while protecting environment.
- **Create a "Talanoa Platform on sustainable finance"** comprised of and leveraging from representatives from major economic sectors to provide multi-sectorial technical expertise to the newly created expert group on this matter.
- One size doesn't fit all: national differences need to be taken into account.
- **All current or future-oriented and promising technologies that could help in reducing CO<sub>2</sub> emissions should be considered** when developing the framework on "taxonomy" and follow up implementing rules.
- Given the global investment flow, any rules on sustainable finance should be discussed and implemented within the UN, OECD and at G20 level.

### **General remarks**

The International Association of Oil & Gas Producers (IOGP) currently has around 80 members globally, of which over 30 members are active in Europe. IOGP represents most of the world's leading publicly traded, private and state-owned oil & gas companies, industry associations and major upstream service companies. Our Members produce 90% of Europe's indigenous supplies of oil & gas. The European oil & gas industry supports 1.1 million direct and indirect jobs in Europe<sup>1</sup> and contributes €420 bn per year to European government revenues, equivalent to 2.7% of EU GDP<sup>2</sup>.

The upstream oil & gas industry has welcomed the Paris Agreement as an important global step in addressing climate change and its challenges. Delivering sustainable development relies on supporting

<sup>1</sup> Eurostat, EU Energy in Figures, Statistical Pocketbook 2017 and Poyry/IOGP calculations.

<sup>2</sup> NERA report on energy taxation and expenditure, March 2018.

transitions to a low-emission or net-zero carbon future while ensuring enough oil & gas to meet the needs of the world's growing population. The task before our industry is therefore to keep providing secure and affordable energy safely to sustain the growth and global competitiveness of the European economy, while doing so as sustainably as possible to help the EU reduce greenhouse gas (GHG) emissions and achieve the UN SDGs.

Innovation is a key driver to achieve the goals set out in the Paris Agreement, the objectives of the European Union as well as the UN SDGs. Technological development will significantly increase the options available and will, over time, bring down costs and ensure competitiveness. For these reasons, the European Commission's package on sustainable finance, with its objective to encourage further private investment in projects and technologies that reduce the impact on the environment and contribute to realising the UN SDGs, is an important step to address current societal challenges. **We strongly believe that this new legislation and any follow up implementing rules should be fully evidence-based, designed in an inclusive manner, and complement existing EU policies through enhancing the certainty and the stability of the regulatory framework.**

This position paper sets out the views of the upstream oil & gas industry on sustainable finance in the context of the current discussions on the Commission's proposal for a Regulation on taxonomy. This is a first step in EU efforts to encourage investments into sustainable activities in which IOGP members would like to be actively engaged (whilst not discouraging other investments needed for Europe to remain competitive). The oil & gas industry is committed to help the EU reach its objectives under the Paris Agreement and its 2030 climate and energy strategy. In particular, gas is part of the solution to rapidly address the risks of climate change and other pressing global challenges highlighted by the UN SDGs such as energy poverty and lack of affordable energy<sup>3</sup>. This is also recognised in the 'Sustainable Development Scenario' published by the International Energy Agency (IEA), in which natural gas becomes the largest single fuel in the global energy mix, helping to deliver the EU objectives of climate stabilisation, better air quality, affordable access to energy and ensuring the economic growth. The IEA also highlights that specific sectors will continue to be mainly dependent on oil by the mid-century. In that sense, low-carbon liquid fuels will keep playing an important role in the future energy mix. Technology and collaboration across industries will have to facilitate the production of these low-carbon liquid fuels. For these reasons, the new rules on "taxonomy" should encourage the oil & gas industry to continue its contribution and support to make the necessary investments that facilitate workable energy transitions.

### **Establish a flexible approach towards defining "green/ sustainable projects"**

We appreciate the Commission's efforts to provide investors with some guidance to stimulate higher levels of investment in "green" and "sustainable" activities that may help reduce the EU's carbon footprint.

Despite the hard work which has been put into the development of the Commission's proposal on taxonomy, **we are concerned that it will be impossible to identify economic activities fulfilling all conditions set out by the draft Regulation.** Different activities along the value chains of different sectors/energy sources have positive or negative impacts (externalities) that are often interlinked, some more directly than others. Examples of externalities include: emissions of "local" pollutants, security of energy supply<sup>4</sup>, innovation spill-overs, "disamenity" value "for local residents and impact on landscape and birds' life of wind farms and other generating capacity, water scarcity, road congestion – and many

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<sup>3</sup> To learn more on the oil & gas industry contributions to the achievement of the UN SDGs, please consult the IPIECA Atlas "Mapping the oil & gas industry to the Sustainable Development Goals: An Atlas." available [here](#).

<sup>4</sup> For example, EU legislation (Directive 2006/67/EC followed by Directive 2009/119/EC) requires countries to retain minimum petroleum reserves with a view to maintaining security of supply. Individual member states use different approaches to maintaining strategic reserves. In some cases, the obligation is passed on to energy companies. The benefits accruing to society from energy companies holding such supplies represent a positive externality.

others.<sup>5</sup> In this context, a uniform and harmonised definition of a “green/sustainable activity” may foster comparability and help provide analogous data, yet it is unlikely to make a fair assessment of a particular activity. Furthermore, it will be difficult to draw clear distinction between what is “green” and what is “not green” within one economic activity. Without a more flexible approach towards the definition of a “green/sustainable activity”, the new rules risk creating more harm than good by not rewarding projects de-facto contributing to the achievement of the EU climate objectives or the UN SDGs. It therefore might be useful to **develop a more graduated rating scale instead of a fully binary and too simplistic approach for the “taxonomy”** and recognise that within activity X there could be a few projects making the entire investment “more sustainable”.

We would also suggest that each project is assessed on an individual basis, meaning that the relative merits of each project are considered, and it should, on balance, meet the overall non-discriminatory objectives of the proposed Regulation as defined in Article 5. Consideration should also be given to the impacts and the benefits of a single project (e.g. replacement of a coal furnace with a gas boiler), without a priori hindering access to finance for certain assets/companies. Additionally, **the socio-economic impact of a given investment** (e.g. to the security of supply in Europe, job and infrastructure creation) **should also be taken into account**. Finally, to ensure a smooth implementation process, once the EU classification system for climate change mitigation and climate change adaptation is ready, **asset managers and asset owners should be asked to check to which extent their investments and products can be attributed to respective categories**. This will ensure that the proposed rules will be implementable in the real world.

### **Create an inclusive debate on “taxonomy”**

In July 2018, IOGP, among other stakeholders, expressed its concerns on the composition of the Technical Expert Group on Sustainable Finance set up to define the details of the taxonomy system. The lack of representation from the energy production sector (producers, refineries, transport) excludes an important contribution and fundamental technical expertise, given that a number of other sectors depend on oil & gas<sup>6</sup>. The lack of representatives from the industry/the ‘real economy’ – who have the investment capabilities – risks the delivery of work not suited for the real economy, that creates unintended consequences such as barriers in the internal market or the capital union, or which does not take adequate account of the energy transition. We believe that the development process of “taxonomy” should be as transparent and inclusive as possible as each sector of the EU economy will need to be encouraged to adjust to deliver the workable energy transitions and contribute to the achievement of the UN SDGs.

For this reason, **we call on the European Commission, as well as on the co-legislators, to establish a “Talanoa platform on sustainable finance” comprised of representatives from major economic sectors. The role of this group would be to provide technical expertise to the formal expert group.** This would definitely create an excellent opportunity to inform on the cutting-edge technologies being developed by a wide range of stakeholders, while attracting flows of investment. Another recommendation is to ensure an inclusive and consultative process at the Member State level where stakeholders should be asked to assess the potential national risks of the Commission’s proposals.

We also believe that there is a need to involve stakeholders in the development of all delegated acts stemming from the “taxonomy” proposals. All upcoming rules determining the technical screening criteria for each of the six environmental objectives must be thoroughly impact assessed. This type of Impact Assessment needs to include all hidden costs and consider unintended consequences for the EU

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<sup>5</sup> *Energy Taxation and Subsidies in Europe*, NERA Economic Consulting. The full report is available [here](#).

<sup>6</sup> For instance, oil provides the raw materials (feedstock) needed to create products such as energy-saving insulation, the plastics used in cars to make them lighter and more fuel efficient, and the lubricants that enable wind turbines to spin and generate cleaner energy.

citizens and the industry as well as make reality check against the EU trading partners (e.g. whether similar policies are being pursued in other countries). The Commission's analysis of the impacts of the taxonomy proposal on Member States is very important and should be carried out properly before the new framework is fully established.

### **Consider cost-effective technical solutions for different countries**

**The definition of “sustainable/green activity” may have different meanings in various national contexts. Therefore, a significant degree of flexibility in the definition should be allowed to capture diverse circumstances.** For example, shifting to natural gas in power generation (e.g. in Bulgaria, Czech Republic, Germany, Poland) will create benefits in terms of CO<sub>2</sub> reductions and lowering air pollutants such as SO<sub>x</sub>, NO<sub>x</sub> and particulate matters. Given the above, the term “*climate neutral*” energy (Article 6(1)(a)) or transport (Article 6(1)(c)) should be replaced with “cleaner” or “low-emission” to take into account differences between Member States. The same language should also be used in other provisions of this proposal.

Rolling out renewables at scale in Europe and to ensure security of electricity supply, require development of flexible and efficient infrastructure aimed at preventing blackouts in the periods of lower electricity production from renewables. Natural gas infrastructure (including gas-fired power plants), with relatively small investment in missing links aimed at enhancing further diversification, can support further development of variable wind and solar power generation as it is a cleaner-burning and cost-effective fuel<sup>7</sup>. Gas emits up to 60% less CO<sub>2</sub> than coal when used in power generation. Moreover, natural gas can be used in the transport sector – the second biggest GHG contributor to the EU emissions - such as heavy-duty vehicles, marine and rail. Using LNG as a marine transport fuel will reduce SO<sub>x</sub> emissions by 90%-100%, NO<sub>x</sub> by 60% and CO<sub>2</sub> emissions by up to 25%<sup>8</sup>. Thanks to all positive characteristics, gas can efficiently contribute to the achievement of a number of the UN SDGs<sup>9</sup>.

**For these reasons, we believe that any investments in gas related projects should be considered as sustainable, given that they can contribute significantly to the environmental objectives of Article 5 in the proposed Regulation. In this spirit, we recommend:**

- Clarifying Article 6 (b) through adding “energy efficiency of households and industrial facilities as well as low-emission technologies”.
- Improving Article 6 (f) through specifying that phase out of greenhouse gases from inefficient facilities powered by fossil fuels will be treated as an action contributing to climate change mitigation. Removal of efficient facilities, in particular based on gas, could pose a risk on reliability of electricity supplies.
- Substituting in Article 6 (g) “enabling decarbonisation” with “enabling a low-carbon scenario”.
- Replacing in Article 6 (h) “producing clean and efficient fuels from renewable or carbon-neutral sources” with “producing cleaner and more efficient fuels from renewable, carbon-neutral or low-carbon sources”.

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<sup>7</sup> According to the European Commission's report on energy costs and prices, on average, EU citizens pay around 4 times more per kilowatt hour (kWh) for electricity than for gas (including levies and taxes). For this reason, a shift to full electrification of heating would lead to higher heating costs.

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

<sup>9</sup> As natural gas is a cleaner-burning fuel, it can contribute to the achievement of SDG 13 “Climate Change”. Thanks to its affordability, natural gas can help delivering “Affordable and clean energy” (SDG 7). By reducing energy poverty, natural gas could be considered as a partner for governments to deliver SDG 1 (“no poverty”) and SDG 8 (“Decent work and economic growth”). Deployment of gas in the transport sector improves air quality in cities, whilst contributing to the achievement of SDG 11 (“Sustainable cities and communities”).

## **Include the role of innovative technologies such as CC(U)S & hydrogen**

IOGP member companies have a long track-record of responding positively to the needs of society in countries where they have operations. While each oil & gas company has its own strategy, all will adapt to meet the demands of an evolving energy system. Many examples of ongoing R&D projects illustrate how the industry could evolve whilst mitigating climate change risks, in an investment-friendly regulatory framework. **All future-oriented and promising technologies that could help in reducing CO<sub>2</sub> emissions should be considered when developing the framework on “taxonomy” or follow up implementing rules.** This includes large-scale deployment of Carbon Capture Use and Storage (CCUS), a technology the oil & gas industry is well-placed to develop given its over 100 years of geological and engineering knowledge. According to the IEA, Carbon Capture and Storage (CCS) could provide 14% of the cumulative emission reductions needed in the period to 2060 to limit future temperature increases to 2°C. CCS could provide 32% of the additional reductions needed for the Beyond 2°C Scenario (B2DS)<sup>10</sup>. On a cost abatement basis, CCUS technology must be on equal footing to other means to reduce CO<sub>2</sub> emissions (such as large-scale deployment of RES). CCUS can be combined with the conversion of natural gas to hydrogen, as well as electricity generation. On the long-term, CCUS can also help heavy industries such as the steel, cement, refining, and chemical sectors to reduce their emissions significantly and retain their crucial place in a lower carbon EU economy. In addition, CCS will be needed for large scale ‘negative emissions’ projects likely to be necessary in the future, including through bioenergy with CCS (BECCS). For these reasons, **we welcome the recognition of CCUS (carbon capture use and storage) as a technology contributing to climate change mitigation the Commission’s proposal.** Steps towards setting up a CC(U)S Alliance should be undertaken by EU policy makers.

**IOGP would also advise including a reference to hydrogen in Article 6 (e).** Blue hydrogen, or hydrogen from Steam Methane Reforming (SMR) with CCS, is one of the solutions that can contribute to climate change mitigation. Up to a certain level and without any significant modification, indeed, hydrogen can be used in the existing gas network avoiding the need to build additional electricity infrastructure or generation assets for hundreds of billion euros, which would be needed to decarbonise heat and transport using electricity.

## **Ensure an international level playing field**

While developing EU policy, special attention should be paid to the competitiveness angle to ensure a level playing field. Achieving sustainable finance will require global actions. Therefore, **any sustainable finance initiatives should be discussed and agreed within the UN, OECD or at G20 level and implemented on a consistent basis in all countries. Firstly, because the three dimensions of sustainable development – economic, social and environmental - are interrelated. And secondly, to avoid putting European countries, companies and citizens at a competitive disadvantage.** The implementation of new obligations is likely to generate additional costs that could have negative impacts on the competitiveness of EU companies and economies.

Regarding any new disclosure requirements, EU companies should not be forced to disclose strategic and forward-looking information that would benefit their competitors. **In a similar way, we suggest avoiding imposing any constraints on EU investors, that would not apply to the investors from third countries, as this could be detrimental for the financing of the real economy.**

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<sup>10</sup> Energy Technology Perspectives 2017, International Energy Agency.