Energy Transition: A Multifaceted Challenge for Europe

3rd Symposium

Reforming the EU ETS: Striking the right balance between the EU objectives of decarbonisation and competitiveness

8th September 2015, 9:00 to 13:00,
Press Club Brussels Europe, Rue Froissart 95, 1040 Brussels

Main points from the presentation of Anders Marvik (Vice-President EU Affairs, Statoil) in **Session 2: The Reform of the EU ETS and its impact on EU competitiveness and other climate policies**

- Statoil supports a global carbon price, and our CEO signed the peer group letter to the UN on carbon price re the upcoming COP21 in Paris. We also supports the EU ETS as a main policy tool to achieve the EU 2030 climate and energy targets/framework. In addition we welcome the current ETS reform proposal such as a more dynamic system of allowances, the market stability reserve, increased linear reduction factor, etc. BUT, the current reform proposal will not be enough to raise the ETS price to a range which will encourage fuel switching from coal to gas, nor stimulate investments/innovation into low carbon technologies, such as CCS, current renewables nor new technological breakthroughs.

- Why is fuel switching important? Take Germany as an example (the biggest economy, biggest EU polluter, and also the home of the most ambitious climate policies). Even though renewables with massive support has reached an impressive 24% of the power market, coal still represents above 40%! And the power market is only a quarter of the overall energy demand.

- Competitiveness - I prefer to use the terminology of investment leakage rather than carbon leakage, as I believe and agree that carbon leakage doesn't really exist as any large investment decision is based on many more factor than carbon costs alone (especially if that price is as low as today). Investments decisions are complex and includes labor costs, labor mobility, economic growth, transportation costs, access to markets adm raw materials, red tape, permitting, etc. For EU the facts says it all: foreign direct investments in 2014 is down again, ref FT FDI report, EU growth is stagnating at low levels despite QE and low oil and gas prices, and industry as a percentage of GDP is again lower at just over 15% whilst the EU target is 20% by 2020. Competitiveness is not just about moving industry or investments, but much more about attracting new investments!

- I want to mention two issues from the EU commission impact assessment study from 2014 in relation to the 2030 package, which hasn't been covered much, but which I believe are crucial to this debate. The first one is the total system cost implied by the current 2030

targets, this is estimated at EUR 2.200 billion. In a situation of low growth, high unemployment, austerity budgets, and low investments, how realistic is this? The next one is the ETS price assumption, which raises from current levels to about EUR 25-30/ton by 2030, but then is supposed to shoot up to EUR 186/ton by 2050. This is an incredible hockey stick graph, and I don't see how this can be realistic or correct. I mean, what is supposed to happen after 2030 that suddenly makes this sharp increase happen? Is it an indicator of EU pushing a lot of difficult decisions until after 2030?

- What ETS price is high enough? There is of course no magic number, but a range of around EUR 50/ton is probably needed. This is similar to the Norwegian CO2 tax and the global hurdle rate at which all Statoil projects globally has to pass before any investment decision.

- I want to end with some questions:

- If ETS price stays low for longer, should we look at targeted measures such as emission performance targets. Like Obama is introducing in the U.S.?

- If there is not a conclusive or good enough deal in Paris, should EU look at CO2 border adjustment tax?

- A more fundamental question is whether we are measuring the the right issue? What about CO2 consumption? According to the book "the carbon crunch" by Dieter Helm of Oxford University the UK claims CO2 emission reductions by some 13% by 2011 from 1990, but for the same time period implied CO2 consumption in the UK (when including implicit CO2 in exports) had increased by 19%. Is that then a good result? How does that link back to the border tax adjustment question above? The reason for this result is that UK (and the EU) has moved a lot of heavy industries and manufacturing out to lower cost (but higher polluting) countries especially in Asia. Which is of course why the EU has used 1990 as the benchmark year, as this was the year after the fall of the Berlin Wall, and the start of the massive move/closure of old Eastern industries.

- If ETS price stays low despite current reforms, and the rest of the 2030 policy framework relies on this fact. How robust is the entire package? Will the other policies work, if the main policy tool does not?

In conclusion: ETS reform work has to continue until the price signal is there, the current reforms are not enough, and the success of the entire 2030 package depends on it.