

IOGP response to public consultation on the revised Climate, Energy and Environmental Aid Guidelines (CEEAG)

The International Association of Oil & Gas Producers' (IOGP) member companies account for approximately 70% of oil and gas produced in Europe. IOGP supports the goals of the Paris Agreement and the EU's objective of climate neutrality by 2050, and will work with policymakers to help create the measures which can enable the energy transition. Many challenges must be overcome to meet this objective, and the energy transition will require significant investments in low-carbon technologies and effective policies driving their uptake.

IOGP believes that the CEEAG should be aimed at allowing for European industries to deliver the scale of projects required to meet the EU's climate objectives, while, as a priority, maintaining competitiveness, keeping existing and creating new jobs. This is essential both in the context of the European Green Deal and as the EU plans to recover from the COVID-19 crisis. We welcome the draft CEEAG, which we believe would facilitate competition between various promising, innovative and scalable technologies that can deliver large-scale reductions or removals of GHG emissions, while taking a flexible approach to funding for both investment and operation with a focus on competitive bidding.

The future contributions of carbon capture and utilisation or storage (CCU and CCS) and low-carbon hydrogen from natural gas with CCS to the achievement of the EU's energy and climate objectives should be reflected in the State aid framework. IOGP therefore also welcomes that the draft CEEAG makes improvements to adequately include these technologies, notably with the inclusion of CCU and negative emissions technologies in addition to CCS, the inclusion of both renewable and low-carbon hydrogen in a technology-neutral manner, and the recognition of natural gas as a transition fuel on the pathway to climate neutrality.

In addition, IOGP believes that the CEEAG should allow support for reducing emissions from the production of oil and gas across the EU. Continued oil and gas production in the EU will be required during the transition and will provide the basis for the development of many necessary low-carbon technologies and their supply chains. Oil and gas from Europe is already produced with a 40% lower carbon footprint compared to the global average¹. Maintaining oil and gas production also allows for the retention of the human and financial capital needed to develop CCS in Europe, as the technology relies on the same people, technologies and value chains, as well as enhancing security of supply.

In this context, we would like to make the following comments to the draft CEEAG:

1) General remarks:

- **Technology neutrality and equal treatment for all applications:** IOGP notes that a wide range of support measures may be considered as providing State aid, and that Member States and the Commission have significant latitude when assessing applications. Authorities responsible for assessing applications must ensure that in all cases a fair and equitable range of assessment criteria are applied equally, such that no category of application for aid receives either preferable or discriminatory treatment.

¹ IOGP (2020): [Environmental performance indicators – 2018 data](#).

- **Avoiding premature linkages to the DNSH principle and the Taxonomy:** Point 69 sets out that in its balancing exercise, “the Commission will pay particular attention to Article 3 of Regulation (EU) 2020/852 of the European Parliament and of the Council, including the ‘do no significant harm’ principle, or other comparable methodologies.” The consideration by the Commission of the “Do not significant harm principle” (DNSH) when assessing the negative effects on competition and trade of a particular State aid regime poses general concerns. In general terms, we first note that the Taxonomy has been developed with the aim of providing a common lexicon for the nascent green finance sector and not, on the contrary, of defining binding benchmarks for other policy tools. Secondly, we consider that it is premature to link the revised Guidelines to the DNSH principle and the Taxonomy, given the fact that the Taxonomy is still under development and the delegated acts on the four remaining environmental objectives are still pending. Moreover, a separate delegated act covering – for the purpose of climate change adaptation and mitigation – natural gas and nuclear energy is expected to be defined by the end of 2021. This provides uncertainty for Member States when designing their State aid schemes, since what might be considered as an environmentally sustainable activity will be only developed over time, and could therefore hinder their implementation. Furthermore, the reference to the potential use of “other comparable methodologies” creates additional uncertainty around which criteria the Commission will rely on in its assessments.
- **Compatibility with upcoming legislation:** The European Commission should ensure coherence and alignment across EU legislation. In this context, the future provisions of the revised Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty (The General Block Exemption Regulation) should reflect the changes introduced by the revised CEEAG. It is important to ensure legislative uniformity and stable policy frameworks for companies in the context of taking investment decisions.

2) Ensuring that the definitions of CCS and CCU cover all relevant sources of CO₂

Art. 2, point 18 (13 and 14): The definitions of CCS and CCU should ensure that all relevant sources of CO₂ are covered, including biogenic and fossil CO₂ and non-fossil CO₂ from industrial processes. We welcome that CO₂ from waste-to-energy plants and direct air capture is proposed to be explicitly included. However, it is not clear whether the proposed definitions would cover non-fossil CO₂ from industrial processes such as cement². We believe the wording set out in the definition of energy infrastructure for CCS is more appropriate for covering a wide range of CO₂ sources (Art. 2, point 18 (35)). We would therefore suggest using this wording consistently, while adding an additional reference to the capture of CO₂ “pre-combustion” as this is integral e.g. to certain low-carbon hydrogen production processes using natural gas reforming in combination with CCS.

Draft CEEAG	Proposed change
<p>2.4, point 18:</p> <p>(13) ‘carbon capture and storage’ or ‘CCS’ means a set of technologies that captures the carbon dioxide (CO₂) emitted from industrial plants based on fossil fuels or biomass, including power plants and waste-to-energy plants [or captures it directly from ambient air], transports it to a storage site and injects the CO₂ in suitable underground geological formations for the purpose of permanent storage of CO₂;</p> <p>(14) ‘carbon capture and use’ or ‘CCU’ means a set of technologies that captures the CO₂ emitted from industrial plants based on fossil fuels or biomass, including power plants and waste-to-energy plants [or captures it directly from ambient air], and transports it to a CO₂ consumption or utilisation site;</p>	<p>2.4, point 18:</p> <p>(13) ‘carbon capture and storage’ or ‘CCS’ means a set of technologies that captures the carbon dioxide (CO₂) emitted from industrial plants, including power plants and waste-to-energy plants that produce carbon dioxide gas from combustion, pre-combustion or other chemical reactions involving fossil or non-fossil carbon-containing compounds [or captures it directly from ambient air], transports it to a storage site and injects the CO₂ in suitable underground geological formations for the purpose of permanent storage of CO₂;</p> <p>(14) ‘carbon capture and use’ or ‘CCU’ means a set of technologies that captures the CO₂ emitted from industrial plants that produce carbon dioxide gas from combustion, pre-combustion or other chemical reactions involving fossil or non-fossil carbon-containing compounds [or captures it directly from ambient air], and transports it to a CO₂ consumption or utilisation site;</p>

² [Cembureau’s 2050 Carbon Neutrality Roadmap](#) explains the importance of CCS for the decarbonisation of the cement sector.

3) Including all CO₂ transport modes in the definitions for energy infrastructure

Art. 2.4, point 18 (35 d): CCS business models have changed considerably in the last 10 years, and it is important that the EU State aid framework is updated to enable the uptake of this new wave of CCS projects³. A number of planned CCS projects in Europe aim to transport CO₂ from one country to another for storage, either by pipeline or by other modes of transport (such as shipping). The projects will take place in hubs and clusters where different industries will share infrastructure for CO₂ transport and storage, allowing for economies of scale through a cross-sectoral and cross-border industrial system⁴.

We welcome that the draft CEEAG includes the CO₂ storage site as part of the proposed definition for CCS infrastructure. However, in order to make CCS viable, all CO₂ transport modalities should be eligible for state funding under the revised framework - not only CO₂ transport by pipeline, but also other transport modes such as ship, rail and truck. Furthermore, the draft CEEAG excludes the upstream pipeline network from its definition of CO₂ transport infrastructure. It is not clear in this context what is meant by the “upstream pipeline network” or why this is specifically excluded from the scope of the draft CEEAG, in particular when infrastructure associated with the geological storage facility has been included. We therefore recommend that the definition of energy infrastructure in the CEEAG is modified to include the transport of CO₂ by other modes than pipeline, as well as to remove the specific exclusion of the “upstream pipeline network”. This would ensure coherence with the delegated act on climate mitigation and adaptation activities under the Sustainable Finance Taxonomy, as all modes of CO₂ transport are covered in the final version of the delegated act.

Draft CEEAG	Proposed change
<p>Art. 2.4, point 18 (35):</p> <p>(d) concerning carbon dioxide:</p> <p>(i) pipelines, other than upstream pipeline network, used to transport carbon dioxide from more than one source, that is to say, industrial installations (including power plants) that produce carbon dioxide gas from combustion or other chemical reactions involving fossil or non-fossil carbon-containing compounds, for the purpose of permanent geological storage of carbon dioxide pursuant to Article 3 of Directive 2009/31/EC of the European Parliament and of the Council or for the purpose of using carbon dioxide as feedstock or to enhance the yields of biological processes;</p>	<p>Art. 2.4, point 18 (35):</p> <p>(d) concerning carbon dioxide:</p> <p>(i) pipelines and all infrastructure and equipment including ships, railways and trucks, used to transport carbon dioxide from more than one source, that is to say, industrial installations (including power plants) that produce carbon dioxide gas from combustion or other chemical reactions involving fossil or non-fossil carbon-containing compounds, for the purpose of permanent geological storage of carbon dioxide pursuant to Article 3 of Directive 2009/31/EC of the European Parliament and of the Council or for the purpose of using carbon dioxide as feedstock or to enhance the yields of biological processes;</p>

³ See IOGP’s paper: [New and old CCS projects in Europe: What’s different this time?](#)

⁴ See IOGP’s [Map of CCUS projects in Europe](#)

4) Including all relevant low-carbon gas technologies and solutions in the definitions of energy infrastructure

Art. 2, point 18 (35 b and c): Smart gas grids enable digitalisation solutions which are of key importance to the energy transition. However, the definition of smart gas grids should also include the adaptation of the network towards a distributed generation model – e.g. modifications to enable reverse flows from the DSO to the TSO level. Furthermore, the definition of energy infrastructure should be extended to cover the transport of natural gas blended with renewable and low-carbon gases such as hydrogen or biomethane. The successful establishment of a hydrogen commodity market will require both the development of new hydrogen infrastructure and the retrofitting of natural gas infrastructure to transport blends. A technology neutral approach should be taken to help ensure that high volumes of hydrogen can be brought to the market, and that the hydrogen market kick-off is swift and efficient (including cost-efficient).

Draft CEEAG	Proposed changes
<p>Art. 2.4 point 18 (35b):</p> <p>(i) transmission and distribution pipelines for the transport of natural gas, bio gas and renewable gases of non-biological origin that form part of a network, excluding high-pressure pipelines used for upstream distribution of natural gas;</p> <p>ii) underground storage facilities connected to the high-pressure gas pipelines mentioned in point (i);</p> <p>(v) smart gas grids, which means any of the following equipment or installation aiming at enabling and facilitating the integration of renewable and low-carbon gases (including biomethane or hydrogen) into the network: digital systems and components integrating information and communication technologies, control systems and sensor technologies to enable the interactive and intelligent monitoring, metering, quality control and management of gas production, transmission, distribution and consumption within a gas network. Furthermore, smart grids may also include equipment to enable reverse flows from the distribution to the transmission level and related necessary upgrades to the existing network;</p>	<p>Art. 2.4 point 18 (35b):</p> <p>(i) transmission and distribution pipelines for the transport of natural gas, bio gas and renewable gases of non-biological origin that form part of a network (including blends of hydrogen and natural gas or other forms of renewable or low-carbon gases such as biomethane), excluding high-pressure pipelines used for upstream distribution of natural gas;</p> <p>(ii) underground storage facilities connected to the gas pipelines or pipelines transporting blends of hydrogen and natural gas or other forms of renewable or low-carbon gases such as biomethane mentioned in point (i);</p> <p>(v) smart gas grids, which means any of the following equipment or installation aiming at enabling and facilitating the integration of renewable and low-carbon gases (including biomethane, synthetic gases or hydrogen) into the network: facilities for the blending of hydrogen or other low-carbon gases with natural gas, digital systems and components integrating information and communication technologies, control systems and sensor technologies to enable the interactive and intelligent monitoring, metering, quality control and management of gas production, transmission, distribution and consumption within a gas network. Furthermore, smart grids may also include equipment to enable reverse flows from the distribution to the transmission level and related necessary upgrades to the existing network, as well as connections of biomethane, synthetic gases and hydrogen production facilities;</p>

5) Eligibility for PCI and PMI status according to the definitions of energy infrastructure

Art. 2.4, point 18 (35 f): For the purpose of ensuring a well-functioning internal energy market, security of supplies based on diversification of sources and routes, competition and sustainability, it should be clear from the TEN-E Regulation and the CEEAG that projects located in the territory of one Member State and one Energy Community country (e.g. the PL-UA interconnector) should be eligible for Project of Common Interest (PCI) status. This would enable i.a. for the Ukrainian side to obtain Project of Energy Community Interest (PECI) status and finance the project with support from the PEGI fund. Moreover, any changes to the eligibility criteria or conditions for funding for PCIs set out in the TEN-E Regulation or the CEEAG should not jeopardize the objectives of energy security and the implementation of the internal energy market.

Projects promoted by at least one Member State in cooperation with third countries are eligible for Project of Mutual Interest (PMI) status, which IOGP supports. We believe that it is necessary to establish reasonable eligibility criteria for PMIs, in order to ensure the equal treatment of PCIs and PMIs and guarantee the effectiveness in supporting projects that can contribute to achieving the decarbonisation objectives of Europe and the third countries concerned, also improving the security of energy supply. In this perspective, to prevent the exclusion e.g. of projects involving non-EU countries bordering the Mediterranean, we consider that when specific reciprocity conditions at the border, possibly established in an intergovernmental agreement or in an agreement between the third country and the EU, are in place, the requirement of a regulatory alignment/convergence with the EU energy market would be sufficiently met.

6) Adequately covering natural gas-based technologies, ensuring legal certainty and reflecting regional conditions in the definitions of “cogeneration”, “high-efficiency cogeneration” and “energy-efficient district heating and cooling”

Art. 2, point 18 (22 and 42): Cogeneration is included in the current EEAG, and should be considered a means to reduce emissions and increase energy efficiency. The review of the Guidelines should therefore not limit the scope of eligible support for cogeneration. We note that the definitions of “cogeneration” and “high-efficiency cogeneration” are directly linked to Directive (EU) 2012/27 of the European Parliament and of the Council (the Energy Efficiency Directive). While natural gas-based cogeneration may currently meet the criteria set, we understand that the Energy Efficiency Directive is under revision as part of the Fit for 55 package, and it is not certain which technologies may or may not be covered by the Directive after its revision. In order to ensure legal certainty, we would recommend finding an alternative way to define “cogeneration” and “high-efficiency cogeneration” which is clear and precise and which takes into account the role of natural gas as a transition fuel.

Art. 2.4, point 18 (33): The definition of “energy-efficient district heating and cooling” is likewise directly linked to the Energy Efficiency Directive, as in the case of the definitions of “cogeneration” and “high-efficiency cogeneration”. However, as the Energy Efficiency Directive is under revision, it is uncertain how future changes to its definitions will take into account regional conditions, such as dependence on coal, and how the varying stages of regional development across Europe will be recognised to create a level playing field. The State aid framework should recognise that in some cases, national and regional circumstances make the transition towards clean district heating and cooling a process which must be achieved gradually, relying inter alia on natural gas-based technologies. IOGP would therefore propose to base the CEEAG’s definitions of these terms directly on the definitions in the current Energy Efficiency Directive, rather than indirectly.

Draft CEEAG	Proposed changes
Art. 2, point 18 (22): 'cogeneration' or combined heat and power means <i>cogeneration as defined in Article 2, point (30), of Directive (EU) 2012/27 of the European Parliament and of the Council;</i>	Art. 2, point 18 (22): 'cogeneration' or combined heat and power means <i>the simultaneous generation in one process of thermal energy and electrical or mechanical energy;</i>

Draft CEEAG	Proposed changes
<p>Art. 2, point 18 (33):</p> <p>'energy-efficient district heating and cooling' means district heating and cooling as defined in Article 2, point (41) of Directive 2012/27/EU of the European Parliament and of the Council, as referred to by Article 2 (20) of Directive 2018/2001/EU of the European Parliament and of the Council;</p>	<p>Art. 2, point 18 (33):</p> <p>'energy efficient district heating and cooling' means a district heating or cooling system using at least 50 % renewable energy, 50 % waste heat, 75 % cogenerated heat or 50 % of a combination of such energy and heat;</p>
<p>Art. 2, point 18 (42):</p> <p>'high-efficiency cogeneration' means high-efficiency cogeneration as defined in Article 2, point (34), of Directive 2012/27/EU;</p>	<p>Art. 2, point 18 (42):</p> <p>'high-efficiency cogeneration' means cogeneration meeting the following criteria:</p> <ul style="list-style-type: none"> - cogeneration production from cogeneration units shall provide primary energy savings of at least 10 % compared with the references for separate production of heat and electricity, calculated according to point (b) of Annex II of Directive 2012/27/EU, - production from small-scale and micro-cogeneration units providing primary energy savings may qualify as high-efficiency cogeneration.

7) Facilitating the coal-to-gas shift in the context of GHG emission reduction

Art. 4.9: The State aid framework should support Member States and particular regions, according to their level of dependence on coal, on their pathways to decarbonisation and a gradual and affordable transition by allowing for a fuel-switching to natural gas in a transitional phase, including through natural gas-based energy production. In their National Energy and Climate Plans (NECPs) a number of Member States have announced the phase-out of coal from their energy mix, referring to a shift from coal to gas as part of the solution to help reach their 2030 GHG emissions reduction targets.⁵ Coal-to-gas switching has already been effective at reducing GHG emissions in parts of Europe. For example, German fossil fuel plants emitted 33% less CO₂ in June 2019 compared to the same month in 2018 due to a market-driven fuel switch from coal to gas⁶. The EU should be pragmatic in making use of the cost-efficient emission reductions provided by fuel switching in sectors such as power and heat generation and transport. In a 2050 perspective, investing in the production of natural gas and low-carbon hydrogen as well as in gradual technical adaptations of the EU gas infrastructure to carry hydrogen can contribute to climate neutrality while making use of existing infrastructure in a more cost-effective way.

Point 71 states that "Measures that directly or indirectly involve support to fossil fuels (...) are unlikely to create positive environmental effects and often have important negative effects (...) This will render a positive balance for such measures unlikely (...)". Point 108 states that "The Commission will (...) verify that the aid measure does not stimulate or prolong the consumption of fossil-based fuels and energy (...)". However, we understand that investments in natural gas may be supported under the section on reduction and removal of GHG emissions, under certain conditions set out in point 110. This creates a strong element of uncertainty and possibly confusion. Further, the draft CEEAG also propose in footnote 64 that "where a project involves investment in a natural gas based energy generation or industrial production installation the costs of this installation would not generally be eligible for State aid under this section, since this would usually be considered the counterfactual investment that would take place in the absence of aid". IOGP would consider that this approach is too stringent, and could result in excluding the most cost-effective solutions on the pathway to climate neutrality and as a consequence increase energy poverty rates, especially in those Member States which are heavily dependent on solid fossil fuels. We would therefore recommend deleting footnote 64 and clarifying the relative weight attached to points 108, 110 and 71 (see concrete proposal for amendment of point 71 below).

⁵ See IOGP's [NECP assessment](#).

⁶ Fraunhofer ISE (2019): [Energy Charts](#).

8) Facilitating necessary investments in gas infrastructure

Art. 3.3, point 71: The energy transition will require some Member States (e.g. Poland) to make a greater effort than others, due to historical national circumstances in which these Member States depend heavily on coal. Increasing costs of the transition due to more ambitious policy would necessitate additional support, in particular for those Member States which face the highest challenges. Support should be directed at solutions (including natural gas) which enable the energy transition, allow for emission reduction and mitigate the social and economic impacts of the energy transition. The deployment of natural gas infrastructure (e.g. distribution grids or gas storage facilities) will facilitate the development of renewable and low-carbon gases. It is therefore essential to ensure and implement an enabling regulatory framework which allows Member States to make necessary investments in gas infrastructure. This consideration should be reflected throughout the CEEAG by allowing for natural gas investments where these can contribute to emission savings by replacing more polluting fuels with natural gas. A similar approach is set out in Art. 7 (1h) of the ERDF Regulation, where natural gas investments are eligible for support if they can facilitate inter alia coal-to-gas switching in the heating sector, cleaner vehicles, or investments in the natural gas networks which make the networks ready for renewable and low-carbon gases.

Draft CEEAG	Proposed change
Art. 3.3 point 71: Measures that directly or indirectly involve support to fossil fuels, in particular the most polluting fossil fuels, are unlikely to create positive environmental effects and often have important negative effects because they can increase the negative environmental externalities in the market. The same applies for measures involving new investments in natural gas, unless it is demonstrated that there is no lock-in effect. This will in principle render a positive balancing for such measures unlikely, as further explained in Chapter 4.	Art. 3.3 point 71: Measures that directly or indirectly involve support to the most polluting fossil fuels are unlikely to create positive environmental effects and often have important negative effects because they can increase the negative environmental externalities in the market. <i>This will in principle render a positive balancing for such measures unlikely, as further explained in Chapter 4. This provision does not apply to</i> measures involving new investments in natural gas, <i>if</i> it is demonstrated that there is no lock-in effect <i>or that the investment can contribute to emission savings e.g. by replacing more polluting fossil fuels with natural gas.</i>

9) Anticipating the electrification of new sectors in the context of reductions from electricity levies

Art. 4.11: We understand that reductions from electricity levies may only be granted to sectors which are currently considered electro-intensive. We are concerned that the draft CEEAG may not adequately anticipate that other sectors may become more electro-intensive in the future and greater flexibility is needed in terms of assessing this element. The production of crude oil and natural gas has not been considered or included in the EEAG's Annex of eligible sectors to date, as oil and gas platforms have traditionally been producing their own electricity on site. However, an important measure to reduce emissions from oil and gas produced in Europe is connecting platforms to onshore networks or sources of renewable electricity, as is already an ongoing development e.g. at several platforms in Norway and the Mittelplate platform in Germany.

To facilitate the electrification of oil and gas platforms, the production of crude oil and natural gas and future industries like carbon capture, transport and storage should be included in Annex 1, and appropriate modifications should be made in the draft CEEAG to introduce flexibility in terms of the sectors and individual projects that can be covered, for example to reflect forward projections.



Draft CEEAG	Proposed change
<p>Art. 4.11.3.1, point 357:</p> <p>The aid under this Section should be limited to sectors that are at a significant competitive disadvantage and risk of relocation outside the Union because of the eligible levies. The risk of relocation depends on the electro-intensity of the sector in question and its exposure to international trade. Accordingly, aid can only be granted if the undertaking belongs to a sector facing a trade intensity of at least 20 % at Union level and an electro-intensity of at least 10 % at Union level. In addition, the Commission considers that a similar risk exists in sectors that face an electro-intensity of at least 7% and face a trade intensity of at least 80%. The sectors meeting these eligibility criteria are listed in Annex I.</p>	<p>Art. 4.11.3.1, point 357:</p> <p>The aid under this Section should be limited to sectors that are at a significant competitive disadvantage and risk of relocation outside the Union because of the eligible levies. The risk of relocation depends on the current or projected electro-intensity of the sector in question and its exposure to international trade. Accordingly, aid can only be granted if the undertaking belongs to a sector facing a trade intensity of at least 20 % at Union level and an electro-intensity of at least 10 % at Union level. In addition, the Commission considers that a similar risk exists in sectors that face an electro-intensity of at least 7% and face a trade intensity of at least 80%. The sectors currently meeting these eligibility criteria are listed in Annex I, although the Commission would also consider other sectors or individual projects to be eligible where switching from higher emission fuels to electricity is taking place as part of a sector wide strategy to reduce emissions.</p>

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