

<p>0.1. What is your profile?</p>	<p>Business</p>
<p>0.2. Please enter the name of your business/organisation/association etc.:</p>	<p>BP International</p>
<p>0.3. Please enter your contact details (address, telephone, email):</p>	<p>Emmanuel Haton Director, European Government Affairs Building Archimede, Rond Point Schuman 11, Brussels, BELGIUM Tel: +32 2 287 80 55 email: emmanuel.haton@ec1.bp.com</p>
<p>0.4. If relevant, please state if the sector/industry you represent falls under the scope of the EU ETS: Please explain:</p>	<p>yes</p>
<p>0.5. If relevant, please state what sector you represent: Please specify:</p>	<p>Energy-intensive industry</p>
<p>0.6. The results of this stakeholder consultation will be published unless stated otherwise. Can we include your replies in the publication? Please state which given information is sensitive and cannot be disclosed:</p>	<p>yes</p>
<p>0.7. Register ID number (if you/your organisation is registered in the Transparency register):</p>	<p>339402664258</p>

1.1 The European Council called for a periodic revision of benchmarks in line with technological progress. How could this be best achieved in your view and, in particular, which data could be used to this end? How frequently should benchmarks be updated, keeping in mind administrative feasibility?

BP believes sector benchmarks should be updated and recalculated before the start of each phase using recent activity data. This is to make them as relevant as possible in describing the performance of installations in a sector to define their allocation. Relevant technological progress in EU ETS installations in a benchmarked sector will be incorporated in this exercise by contributing to the level of the benchmark. This process advantages early adopters of relevant technology by improving an installation's allocation relative to its industry peers. For sufficient carbon leakage compensation (and to avoid over-allocation during economic downturns or under-allocation in times of economic growth), there must be a closer and more dynamic relationship between an installation's recent activity levels and its level of free allocation. Installation activity levels will thus need to be verified more frequently than in the current cycle of once before each phase. It is accepted this may give a small increase in installation verification and administration costs. But an activity-based approach would also have overall benefits by simplifying the current EU ETS Directive rules by eliminating the need for both partial cessation rules and the New Entrant Reserve (NER). Eliminating the NER and new entrant allocation rules would both allow new installations to be considered for free allocation on the same basis as incumbents, and simplify administration by having a single allocation system.

1.2 The European Council has defined guiding principles for the development of post-2020 free allocation rules which provide inter alia that "both direct and indirect costs will be taken into account, in line with the EU state aid rules" and that "the most efficient installations in these sectors should not face undue carbon costs leading to carbon leakage" while "incentives for industry to innovate will be fully preserved and administrative complexity will not be increased" and while "ensuring affordable energy prices". Do you have views how these principles should be reflected in the future free allocation rules?

- "both direct and indirect costs will be taken into account, in line with the EU state aid rules" BP believes that both direct and indirect costs must be taken into account for free allocation so that free allocation is properly assessed to negate the risk of carbon leakage. Indirect emissions specifically relating to electricity costs must reflect installation electricity use from both on-site generation and imports. The systems of free allocation must be harmonised at EU level and described as part of the EU ETS Directive to avoid Member States having to be each separately assessed by the Commission under EU State Aid registration rules. - "the most efficient installations in these sectors should not face undue carbon costs leading to carbon leakage" We agree. The most efficient installations should not have to face undue carbon costs. To ensure that benchmarks that help determine free allocation to mitigate carbon costs are correct, BP does not support the use of benchmarks based on 'best available technologies'. A benchmark must describe the actual state of the sector including technologies that are actually being applied - not those that are only theoretically available or at a pilot plant stage. Sector Benchmarks must be set at a realistic level: an over-ambitious benchmark will not recognise the performance of even the most efficient actual installations in a sector, and by under-allocation will actually increase the risk of carbon leakage. Hence we support a benchmark based on the average first quartile (average of the 25% most efficient installations) as being more representative of leading but attainable industry performance rather than a benchmark based on an average of the top 10% of installations in a sector. - while "incentives for industry to innovate will be fully preserved and administrative complexity will not be increased" The main incentive for industry to innovate under EU ETS is via the EU ETS price. This price must be determined by trading under the cap which defines total allowance supply, and the level of aggregate demand for that supply. But for all industry sectors (except those included via their process emissions), innovation is also incentivised by fuel savings from more efficient and/or reduced combustion activity and/or reduced electricity demand. The application of the cross sectorial correction factor (CSCF) reduces the incentive to innovate: the current allocation system

allows over-allocation to installations in sectors with high historical but low current activity levels. The CSCF then reduces all allocation to all installations, penalising those installations that have had a more consistent levels of activity. The CSCF also distorts the levels of free allocation required to mitigate the risk of carbon leakage. BP thus advocates abolition of the CSCF. In addition the administrative complexity of the application of the CSCF lacks transparency and is the subject of legal action.

1.3 Should free allocation be given from 2021 to 2030 to compensate those carbon costs which sectors pass through to customers? How could free allocation be best determined in order to avoid windfall profits?

Installations subject to carbon leakage risk should receive free allocation compensation at 100% of the benchmark level. For BP installations in the EU refining, bulk organic chemical, and oil and gas production sectors, their production is already subject to international competition in transparent markets that do not recognise EU ETS pricing. To reduce any risk for over-allocation to sectors with high historical but low current activity levels, we recommend an activity-based approach. This would better link free allocation to current/recent installation output. An activity-based approach resolves the specific risk of over-allocation. Currently ex-ante allocation from a fixed baseline combined with the EU ETS Phase 3 partial cessation rules only reduce an installation's free allocation if its activity level falls below 50%.

1.4 Are there any complementary aspects you would like to add to the replies given to the previous written consultation in the light of the European Council conclusions?

2.1 Do you see reasons to modify the existing modalities applied in the first two calls of the NER300? Are there any modalities governing the NER 300 programme which could be simplified in the design of the innovation fund? If you see the need for changes, please be specific what aspects you would like to see changed and why.

A global carbon price would help to unleash market forces and provide the right incentives for everyone to play their part. Until then, the competitiveness of the EU industry must be protected with effective carbon leakage measures: free allocation must continue into Phase 4 and the EU ETS needs to be reformed to provide sufficient levels of carbon leakage protection.

BP's preference for EU ETS revenues is that they should be returned to the economy in a non-distortionary manner, e.g. via corporation and income tax reductions. We do recognise the need for transitional incentives to help emerging low carbon technologies (e.g. CCS and renewables) overcome deployment barriers. Therefore any proposed EU innovation fund (e.g. 'NER -300') should be tightly focused on technologies with objective potential for significant cost reduction and significant carbon savings. Funding must be truly transitional (i.e. gradually reduced and finally removed). EU funding to assist emerging low carbon technologies should be aggregated with other funds to minimise administration costs and maximise funding for the most suitable projects. On NER 300, in Phase 4, a New Entrants Reserve (NER) will not be required if free allocation is based on installation activity. New entrants could apply for allocation using their activity level data. This would prevent competitive distortion by ensuring equality of free allocation between new entrants and incumbents in sectors qualifying for carbon leakage protection. From experience NERs themselves are also problematic: if too small, an NER distorts allocation to later new entrants when the fund runs dry; if the NER is too large although new entrants can receive allocation, the remaining NER allowances are auctioned at the end of the phase by Member States. This depending on the quantity of unused allowances and its public disclosure will affect EU ETS markets.

2.2 Do you consider that for the extended scope of supporting low-carbon innovation in industrial sectors the modalities should be the same as for CCS and innovative renewable energy technologies or is certain tailoring needed, e.g. pre-defined amounts, specific selection criteria? If possible, please provide specific examples of tailored modalities.

BP recognises the need for transitional incentives to help emerging low carbon technologies (e.g. CCS and renewables) overcome deployment barriers. Therefore proposed EU innovation support should be tightly focused on technologies with the objective potential for significant cost reduction and significant carbon savings. Funding must be truly transitional (i.e. gradually reduced and finally removed). EU funding to assist emerging low carbon technologies should be aggregated to minimise applicant administration costs and maximise funding for the most suitable projects.

2.3 Are there any complementary aspects regarding innovation funding you would like to add to the replies given to the previous written consultation in the light of the European Council conclusions?

There should be public reporting of how EU investment funding of innovation projects has been utilised. This is to both publicise the use of funds in successful low carbon technologies as well as to learn from failed projects.

3.1 Implementation of the modernization fund requires a governance structure: What is the right balance between the responsibilities of eligible Member States, the EIB and other institutions to ensure an effective and transparent management?

[No comment]

3.2 Regarding the investments, what types of projects should be financed by the modernisation fund to ensure the attainment of its goals? Should certain types of projects be ineligible for support?

[No comment]

3.3 Should there be concrete criteria [e.g. cost-per-unit performance, clean energy produced, energy saved, etc.] guiding the selection of projects?

[No comment]

3.4 How do you see the interaction of the modernisation fund with other sources of funding available for the same type of projects, in particular under the optional free allocation for modernisation of electricity generation (see section 4 below)? Would accumulation rules be appropriate?

[No comment]

3.5 Do you have views how the assessment of the projects should be reflected in the forthcoming 2030 governance process (e.g. national climate programmes, and plans for renewable energy and energy efficiency)?

[No comment]

3.6 Should the level of funding be contingent on concrete performance criteria?

[No comment]

4.1 How can it be ensured that investments have an added value in terms of modernising the energy sector? Should there be common criteria for the selection of projects?

[No comment]

4.2 How do you see the interaction of the free allocation to energy sector with other sources of funding available for the same type of projects, e.g. EU co-financing that should be made available for the projects of common interest under the 2030 climate and energy framework? Would accumulation rules be appropriate?

[No comment]

4.3 Do you have any views how the assessment of the projects should be reflected in the forthcoming 2030 governance process (e.g. as regards improving transparency)?

[No comment]

4.4 The maximum amount of allowances handed out for free under this option is limited. Do you think eligible Member States should use the allowances for a period of time specified in advance (e.g. per year), or freely distribute them over the 2021-2030 period? (Please explain your motivation.)

[No comment]

4.5 Should there be priorities guiding the Member States in the selection of areas to be supported?

If so, which of the following areas, if any, currently supported through investments for modernisation of electricity generation up to 2020 should be prioritised for support up to 2030 and why?

Please explain in detail:

4.6 How can improved transparency be ensured with regard to the selection and implementation of investments related to free allocation for modernisation of energy? In particular regarding the implementation of investments, should allowances be added to auctioning volumes after a certain time period has lapsed in case the investment is not carried out within the agreed timeframe?

[No comment]

5.1 Are there any EU ETS administrative requirements which you consider can be simplified? Do you see scope to reduce transaction costs, in particular for SMEs? If yes, please explain in detail.

Activity-based allocation would allow better matching between an installation's activity and the right level of free allocation to protect against risk of carbon leakage. Activity-based allocation would ensure that new installations can be integrated directly into the system (a New Entrant Reserve would therefore not be required), and it would also help to avoid potential optimisation around the activity level thresholds. In addition, activity-based free allocation would remove the need of specific provisions for installation partial cessation and new entrant installations, thereby simplifying this aspect of the administrative compliance, and thus with consequent benefits to all including SMEs. Activity-based allocation is also in line with the Council's Conclusions on the 2030 package: 'Future allocations will ensure better alignment with changing production levels in different sectors.' BP notes that currently the validity of allowances is linked to each phase. Allowances that are unused are then cancelled after the end of the phase with replacements issued later. Experience shows this surrender and reissue system complicates trading and regulatory compliance: for example ex-ante year 2021 allocation cannot be used for surrender against 2020 emissions even though both allowance types are physically available in the market. This bureaucratic situation then requires very specific trading and thus contractual differentiation between allowances in each phase with inherent additional complexity. Given that allowances can be banked into the following phase, surely the easiest way to resolve this is to remove the surrender and reissue process and declare all issued or exchanged ETS allowances in the registry common currency for current and future EU ETS compliance.

5.2 Member States had the possibility to exclude small emitting installations from the EU ETS until 2020. Should this possibility be continued? If so, what should be the modalities for opt-out installations to contribute to emission reductions in a cost-effective and economically efficient manner? Should these be harmonised at EU level?

Small installations should continue to be eligible for exclusion on the grounds of disproportionate administrative costs outweighing their very small emission quantities. Any non EU ETS small emitter would of course be subject to other equivalent GHG mitigation measures set by the relevant Member State. The criteria for small emitter exclusion should be harmonised at EU level. Installations should be assessed for small emitter exemption: - under the existing EU ETS exclusion threshold criteria which are less than 25,000 tonnes CO₂ equivalent emissions per annum, and below the 35MW rated thermal input if defined as a combustion installation; - using the same baseline (data) years to be used in setting benchmarks. Installations that can demonstrate meeting both threshold criteria above in each of the baseline (data) collection years before the start of the phase should be excluded from the EU ETS and in particular from the EU ETS monitoring and reporting obligations. Should an emitter later exceed the relevant EU ETS thresholds for inclusion, then the EU ETS Directive would apply and it would need to obtain the relevant GHG permit from the competent authority and re-enter the EU ETS.

5.3 How do you rate the importance of a high level of security and user-friendliness of the Union Registry? Do you think the costs for providing these services should be covered via Registry fees?

BP rates highly the importance of the security and user-friendliness of the Union Registry. Specifically, the following improvements to the registry to enhance user-friendliness should be included in revision of the EU Emission Trading System (EU ETS) Directive for post-2020:

- Reduce the number of instances that require entry of password, mobile phone number and text response. This is currently needed for each action, which is extremely time consuming when actions were required on all an organisation's accounts at the same time (especially at year-end verification);
- Remove the 26 hour delay on transactions between own accounts - this makes basic housekeeping very difficult;
- Avoid having to resubmit personal user documents each time responsibilities changed - this is not required with banking systems. A letter from the Company Secretary / Director should be sufficient if the original documents are on file;
- Email notification to all account representatives when the Registry has planned maintenance;
- Allow more than 6 AR and 6 AAR accounts. The number for each category; should be at least 12 and preferably more;
- Greater ability to select multiple projects when making CER or ERU transfers;
- Website reliability has improved but still needs additional resilience at busy times of the trading year;
- When making transfer proposals, in selecting the account number, the account name should also be shown. Currently, when proposing a transfer, it is only upon approval that you see that the account belongs to say 'EU Installation Trading Ltd'.

On fees to operate the union registry, these should be deducted from auction revenues. This reduces administration costs and harmonises the effect across the EU.

5.4 Do you consider discrepancies in Registry fees in different Member States justified? Should Registry fees be aligned at EU level?

To reduce and simplify administration – and particularly for SMEs, registry fees charged in Member States should be deducted from Member State EU ETS auction revenues.

5.5 Under the current EU ETS Directive, at least 50% of the revenues generated from the auctioning of allowances should be used by Member States for climate-related purposes. For the calendar year 2013 Member States have reported to have used or to plan to use 87 % on average to support domestic investments in climate and energy. Do you consider the current provisions regarding the use of the revenues adequate for financing climate action? If not, please explain why?

6.1 How well do the objectives of the EU ETS Directive correspond to the EU climate policy objectives? How well is the EU ETS Directive adapted to subsequent technological or scientific changes?

The level of expenditure by Member States for climate-related purposes is for Member States to agree and determine. But recycling from the auctioning of allowances should be revenue neutral, with revenues returned to the economy in a non-distortionary manner, e.g. via corporation and income tax reductions. BP also recognises the need for: • Supporting research and development to catalyse innovation to provide low-carbon options for the future; • Education to raise public awareness to highlight the energy challenges the world faces, and potential solutions; • Transitional incentives to help emerging low carbon technologies (e.g. CCS, renewables) overcome deployment barriers. These incentives should be tightly focused on technologies with objective potential for significant cost reduction and significant carbon savings; and truly transitional (i.e. gradually reduced and finally removed).

The objectives of the EU ETS to reduce emissions at the lowest cost for the power and industry sectors via a market based mechanism correspond well to EU climate policy objectives. However, EU ETS overlapping measures - including mandatory renewables and energy efficiency targets - have locked the EU into less cost-effective means of GHG reduction. The EU ETS Directive is well adapted to subsequent scientific change in that the overall EU ETS cap can be amended as part of overall EU GHG mitigation policy before a phase commences. In terms of adapting to technology change in EU ETS covered sectors, we recommend ensuring sector benchmarks are relevant and applied before the start of each phase. This will determine which installations (and which technologies) will inform the sector benchmark. To reduce distortion between sectors due to their varying performance curve gradients, the top 25% of installations should form the benchmark for each benchmarked sector.

6.2 What are the strengths and weaknesses of the EU ETS Directive? To what extent has the EU ETS Directive been successful in achieving its objectives to promote emission reductions in a cost-effective manner compared to alternatives, e.g. regulatory standards, taxation?

The strength of the ETS is that it is a cost-effective policy instrument that focuses on emissions reduction from large sources at least cost rather than setting objectives for technology use, energy mix and for energy consumption. EU ETS has also been delivering on its objective: the EU is on track to go beyond its 2020 GHG reduction target. However, the credibility of the EU ETS system will depend on its robustness against short-term regulatory proposed and/or enacted market intervention measures and the use of overlapping instruments that risk diluting its cost effectiveness. Regarding weaknesses, the current ETS Directive provides insufficient carbon leakage protection to sectors at risk. This is due to the application of a cap on industrial emissions which resulted in the early and unjustified application of the cross-sectorial correction factor. Specifically, the EU refining industry - according to EU 2013 final allocation data - has received free allocation covering only 79% of its emissions. As carbon leakage protection free allocation does not cover indirect emission (electricity) costs, this further reduces the amount of carbon leakage protection. Without the cancellation of the CSCF, the current EU ETS - even if extended post 2020 - will provide too little free allocation to protect installations against the risk of carbon leakage. Regarding system surplus, there has been an unfortunate desire to intervene in the EU ETS mid phase via Backloading and now the Market Stability Reserve (MSR). These interventions have been disruptive to the market in encouraging short term responses to each stage of the political process of regulatory approval. These interventions have not addressed other concerns including the risk of carbon leakage and declining levels of free allocation to sectors at risk of carbon leakage. A package of measures covering all these issues at once would be a better and more coherent solution. Finally, current EU ETS system distortions must be corrected. For example: - The use of historical baselines and activity levels to determine sector free allocation. This favours historically active installations even if they have reduced levels of activity must be replaced by an activity based approach allocation system based on recent installation activity. - Non-grid connected installations that generate electricity are disadvantaged as many use electricity to provide for

motive power needs for which they receive no free allocation. No free allocation discriminates against the use of electricity, and favours use of direct combustion equipment giving a distortion between installations in the same sector. As these installations are non-grid connected, there is no risk of distortion to the supply of electricity to public transmission networks.

6.3 To what extent are the costs resulting from the implementation of the EU ETS Directive proportionate to the results/benefits that have been achieved, including secondary impacts on financing/support mechanisms for low carbon technologies, administrative cost, employment impacts etc.? If there are significant differences in costs (or benefits) between Member States, what is causing them?

As a market-based instrument, the EU ETS ensures achievement of its GHG emissions reduction target at least cost to covered sectors. Other policies such as taxes or command and control regulation would be more costly and less flexible, and without certainty of achieving emission reduction targets. Attempts to artificially increase the EU ETS price via regulatory intervention (e.g. to enhance lower carbon technologies) reduce the effectiveness of the EU ETS to achieve GHG reductions at lowest cost. Such attempts also serve to reduce EUA demand thus risking a downward EU ETS price response.

6.4 How well does the EU ETS Directive fit with other relevant EU legislation?

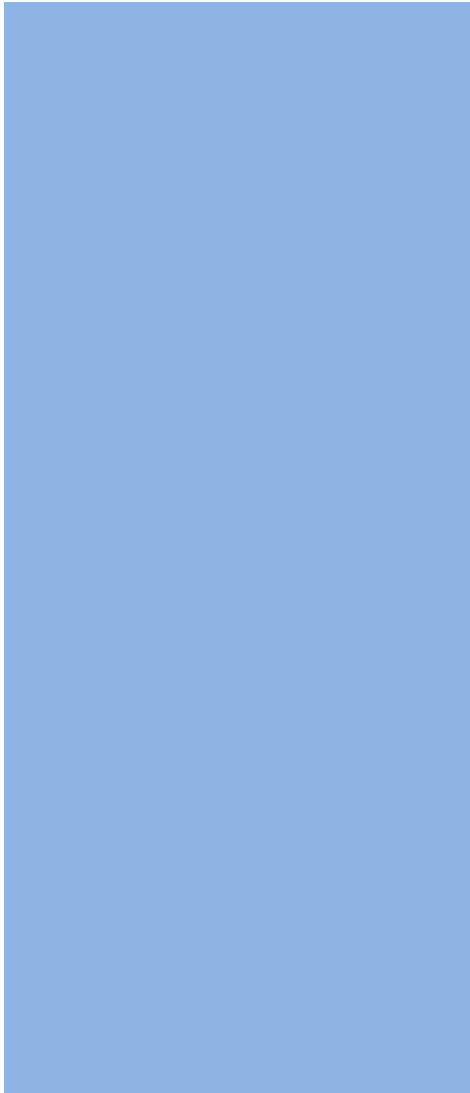
The EU ETS should remain as the central EU climate policy instrument up to and after 2020. Under the current framework, other legislative instruments such as renewable and energy efficiency targets have resulted in overlap with EU ETS in traded sectors. These have distorted the EU ETS carbon price signal and resulted in a higher cost of CO₂ reduction than would have otherwise been the case.

6.5 What is the EU value-added of the EU ETS Directive? To what extent could the changes brought by the EU ETS Directive have been achieved by national measures only?

The EU value-added of the EU ETS Directive is by reducing emissions in its covered sectors at lowest cost. National measures are less effective than those harmonised at EU level, as they would result in less efficient and fragmented markets, and competitive distortions between Member States.

6.6 Do you have any other comment on the revision of the EU ETS Directive that you would like to share?

- **Data handling** The Commission with Member States should implement a more efficient automatic pan-EU system of EU ETS emissions and activity data collection. The aim must be to only enter the relevant data once – preferably by the operator. This data would be verified, checked by the relevant competent authority and submitted to the Commission for overall allocation confirmation. This would reduce administration, and help increase EU ETS transparency and participant confidence, as data reporting into the public domain could be automatic.
- **Data coding** EU NACE coding linked to each installation/sub installation – particularly in published emissions & allocation data would improve independent data analysis, transparency and thus confidence in the EU ETS. This would be particularly relevant in combustion sector which currently has a single coding category but contains the vast majority of allocated and non-allocated sectors/sub sectors, and consisted of over 76% of total ETS emissions in 2013. As a specific example the EUROSTAT database shows some 1,000 plants under NACE code 19.20 (Revision 2) for Manufacture of refined petroleum products. But there are less than 100 refineries in the EU covered by the EU ETS. For transparency, the link between installations and NACE codes should be clear, particularly in the publication at installation level of emissions and allocation data.
- **Data transparency** There are a number of outstanding National Administrative Court Cases that have been referred to the European Court of Justice concerning the CSCF and its implementation. One of the main areas of contention has been the lack of transparency in the



Commission's data selection and calculation for the CSCF.