

Environmental Defense Fund congratulate DG ENER for successfully migrating the stakeholder consultation online thus allowing both EU and third-country stakeholders to participate to the conversation around addressing energy-related methane emissions. The number of participants, over 200, as well as the number of questions and quality of interventions, including by national governments, Members of Parliament and third-country suppliers, is evidence that this is an issue of strategic importance with a clear value-added for action at EU level. We were further pleased to hear the timeline for delivery of an EU Methane Strategy in May 2020 and legislative proposals in 2021 and remain committed to supporting DG ENER in its preparatory work.

Having already submitted input ahead of the call, we appreciate the opportunity to follow-up with updated input, based on internal analysis of stakeholder questions.

Response to DG ENER's proposed scope: In order to effectively reduce emissions, the strategic plan aims to cover the entire energy value chain. That includes production of natural gas, gas associated with oil production and handling, gas transmission, distribution and consumption – but also emissions from active and decommissioned coal mines. We envisage a holistic approach, keeping in mind the specifics of each sector.

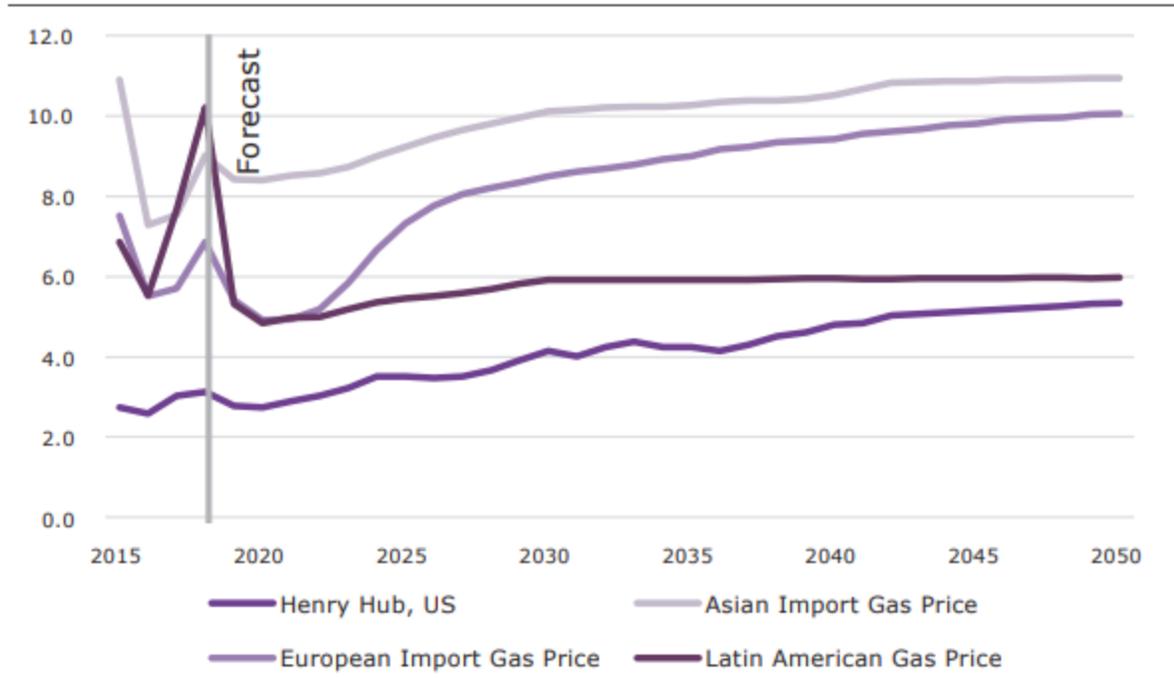
→ **Question: do you agree with the scope? Anything else to be included?**

Environmental Defense Fund (EDF) agrees with the scope of activities in the understanding that this will also include imports as a priority scope for action. The reason is that we believe that the biggest part of the problem lies in the upstream segment of the EU's gas supply chain. The major European oil and gas companies have joined a CEO-led voluntary initiative, the [Oil and Gas Climate Initiative \(OGCI\)](#), which has established the feasibility of a 0,25% methane intensity by 2025. According to the IEA, 50% of global methane emissions from O&G can be solved at no net cost, with technologies existing today and this plausibly suggests that investment in methane management is commercially viable.

The most cost-effective abatement is achieved at the upstream level and should be addressed first. Successfully addressing emissions in the full supply chain requires setting a mandatory methane performance standard, both inside the EU and for imported gas. Even if volumes of gas use in Europe decline, it is still expected to be a large market for gas. This gives the EU a voice that no one can ignore.

Long-term drivers and outlook

Figure 1.9. Natural gas prices (2018 USD per mmBtu)



Source: GECF Secretariat based on data from the GECF GGM

Response to DG ENER's proposed approach: For the energy sector, the key challenge is to measure accurately the real emissions of methane. A strategic plan on methane could address this key challenge by pushing for actual measurements, transparent reporting, verification, integrity and validation of data (MRV-IV) of methane emissions. This will lead to the identification of major emissions and leaks which then will have to be repaired. We should also address the super emitters, since 50% of emissions come from only 5% of sources.

→ Question: Do you agree with such an approach?

No, the approach will have limited impact unless it includes actionable, enforceable measures that can become core to the EU's gas market and lead to radically lower carbon and methane emissions. This is why EDF believes that all action on methane should be driven by a methane performance standard applying on all gas sold in the EU's gas market, including on imports. Environmental Defense Fund therefore recommends the following scope:

1. **A mandatory methane performance standard for all gas sold in the EU market, including from imports, of 0,2% by 2025.** This standard should be enshrined in all relevant legislative opportunities including a potential Regulation on energy-related methane emissions, the sector integration legislation, a border adjustment mechanism, the energy taxation directive recast, the non-financial reporting directive recast, the EU's 2030 climate target update and should also

inform the reform of the Projects of Common Interest funding and state aid decisions.

2. **A clear political mandate for both ACER and national regulators to act on enforcing [sustainability performance indicators](#)** such as a methane performance standard.
3. **Pricing should consider the option of directly pricing methane as a fee at the border and as a penalty domestically for all gas delivered without credibly certified methane emissions.** The burden of proof should be on producers, both domestic and third-country. The IPCC Tier 1 emission factors for natural gas systems (using the 2019 Refinement to the 2006 IPCC Guidelines for National Greenhouse Gas Inventories) should apply as basis for default emissions estimate for all gas sold in the EU. Producers could opt-out of that default by submitting credible, certified, third-party verified methane emissions data. Should they fail to deliver gas with certified emissions, an Emissions Factor should be assigned to them. This could be enacted in 2023 and reviewed in 2025, if and when robust MRV-IV is in place.

EDF is currently doing a qualitative assessment of policy instrument options. The options include a methane emissions fee, tradable methane quotas and a tradable (emission intensity-based) performance standard.

Early results suggest that until a robust MRV-IV is in place, the efficient functioning of a volume-oriented mechanism could be based on the IPCC Tier 1 emission factors for natural gas systems (using the 2019 Refinement to the 2006 IPCC Guidelines for National Greenhouse Gas Inventories, selecting factors for activities occurring with higher-emitting technologies and practices). We will focus on the main functions of an early- stage methane fee which could be enacted in 2023 for compliance in 2025 and which could include the following features:

- Implementing charges / taxes for gas imports according to average methane footprint at the country level. Should third-country governments be able to credibly demonstrate that methane leakage is both taxed and emissions reduced, producers from said countries could be “credited” if they credibly demonstrate better performance.
- Level of charge could reflect uniform marginal costs and be calibrated to allow producers a proportional reduction on the level of the methane payment on their gas if they provide certified, credible, third-party verified data on emission intensity representative of all their production facilities, with the underlying calculations made public and in compliance with the EU’s MRV-IV system;

- Grant credits towards EU methane emissions payments for any emissions price already paid in the production country on the condition that such payments can be verified in fiscal registries and are based on third-party verified and appropriately sampled measurements of methane emissions per above.
4. **Mandatory LDAR effective immediately, through either delegated acts or the regulatory route (as proposed in ACER's Bridge beyond 2025 document) and building on the existing gas quality directive** to address sustainability with the same urgency and attention as it addresses safety.
 5. **The creation of a mandatory, EU-wide methane certification system incentivising EU gas buyers to cap emissions of their gas portfolio at the level of the standard and either reduce volumes of unabated gas they import or switch to responsibly produced gas and/or new gases and/or electricity.** Such a certification system should be enacted in 2023 and thereby create a pull effect for an MRV-IV by virtue of being an integral part of the industry's license to operate in the internal market.
 - a. Such a system could build further on the existing Guarantees of Origin system provided they will become mandatory and harmonised across the EU and updated with mandatory certification of climate value of the gas in terms of both methane intensity and CO2 standards at the company level and as technology improves, at the facility level.
 - b. Based on feedback from both EFET, the European Federation of Energy Traders and some of Europe's largest gas buyers, EDF believes that there is merit in exploring ways to integrate methane in the GoOs system as an independent methane certification system applied at the point of import would be quite a small and highly concentrated market.
 - c. This should be underpinned by the same philosophy as the energy efficiency performance standard enabling the construction of market, regulatory and fiscal incentives fostering continuous improvement and innovation until the target is reached.
 6. **EDF believes that the harmonised methane emissions reporting standards developed under the OGMP 2.0** (Oil and Gas Methane Partnership), a multi-stakeholder process led by UNEP and the European Commission and involving both industry, civil society and the science communities should be the basis for regulation.
 7. **Robust financial and in-kind support for the development of an MRV –IV** to enable operations no later than 2023.

8. **Both the policy and regulation as well as the certification approach should be developed in a dynamic way**, ensuring feedback loops between the LDAR campaigns, the standards and certification.

EDF stands ready to help with both scientific capacity to improve the accuracy of measurements as well as through our subsidiary, [MethaneSAT](#) and our global network of partners including regulators, policy makers, civil society, industry, investors and technology developers to develop and implement policies that work.

As a major importer of gas and oil, the EU has a responsibility; therefore, an ambitious methane policy should also have a strong international pillar. The EU should continue leading international efforts, raising this issue with its partners and build alliances as part of its energy diplomacy actions through bilateral and multilateral cooperation.

The European Commission is actively involved in a number of international initiatives on reducing methane emissions, e.g. under the UNEP-led Climate and Clean Air Coalition (CCAC) pursuing a robust and ambitious reporting framework for companies and by contributing to global scientific studies on methane emissions. These activities should continue.

→ Question: Do you agree? What should be focus for each of the groups of third countries (suppliers, buyers, international organizations?)

Fully agree. Considering the nature of the issue as low hanging fruit , EDF further recommends considering this as a top priority for the external dimension activities of the European Green Deal cluster internally, in the Commission, to ensure that resources and instruments available to services following up external affairs and trade relations are fully used. Importantly, the Commission as a whole should step up the effort to use its convening power to bring together Member States' Foreign Ministries and Energy & Climate Ministries to actively fund and participate in the UNEP-led effort and take a leadership role in solving and managing political and geopolitical issues as well as ensuring their follow-up.

Focus of relations with suppliers

In response to concerns around concrete asks to third-country suppliers and the false dilemma of choosing between methane and CO2 mitigation our response is that third country suppliers should be required to do both but the timeline for delivery on methane should be 2023 while 2030 can remain as the cut-off date for unabated gas. In addition, it should be made clear that the Commission's own in-depth analysis of the net-zero target puts even a 2020 role for unabated gas into question.

Under any demand scenario, mitigating methane emissions is cost- effective and solutions feasible with technologies and processes available today. Investors

increasingly understand performance on methane as a proxy for operational excellence and as such, suppliers failing to deliver on methane in 2023 cannot be expected to deliver on CCS or hydrogen.

Suppliers should be looking to differentiate themselves (ESG) in a competitive and increasingly oversupplied market which makes it easier on buyers to issue force majeure notices. Both the EU and national governments should therefore reinforce investors' demands by offering the political framework to make it clear to suppliers that failure to mitigate both methane and CO2 emissions will accelerate phasing out of gas as part of the EU's energy mix.

An effort worth exploring further and supporting is the EU's domestic gas industry work to develop the concept of "climate value" of gas, which will essentially be determined by methane and CO2 emissions. EDF supports this direction and suggests socialising it with third country producers.

In response to concerns raised in relation to signals EU methane policy action could be sending to third-country suppliers which could have the perverse effect of suppliers sending their "good gas" to the EU and their "bad gas" to the rest of the world, EDF reminds the Commission that internationally traded gas from Russia, Norway and Algeria – the EU's main suppliers - is really not very fungible. Natural gas producers are locked-in to their customers in the short to medium term because of the physical pipeline transportation systems with high costs for building new LNG and pipeline capacity for access to other markets.

The contracts are often structured to purposefully tie the supplier, mostly monopolistic National Oil Companies (Gazprom, Equinor, Sonatrach) and the customer into long-term, strategic contracts, which in total account for about 80% of gas volumes used in the EU and expiry dates between 2026- 2036. Long distance pipelines overwhelmingly have a single supplier option.

Specifically addressing concerns that the Asian market might absorb "bad gas", this is far from certain (if at all) on grounds that:

- 1) as long as pricing is administered at the European border according to average methane leakage footprint of the country or region of origin, such "crowding out effects" would be limited.
- 2) China is considering adding methane targets into its NDCs, which will apply to the oil and gas sector.
- 3) Due to energy security concerns, China is accelerating oil and gas market reform and domestic production; expanding renewables and higher-efficiency/lower-emissions coal power generation.
- 4) China's coal-to-gas switch mainly took place in residential and industrial sectors. Continued further expansion requires significant government subsidies for distribution and connection.
- 5) China's existing contracts with central Asia, Russia and LNG suppliers are multi-year arrangements (20-30 years); and the capacity is not yet fully met. Due to the recent

price crash, Gazprom suspended gas supply to China and expected delay in the construction of the Siberia power project.

- 6) China faces significant challenges in gas storage and transportation infrastructure which is essential for the country to maintain market and operational flexibility. Outside China, similar challenges face many emerging economies in the Asia Pacific when it comes to gas expansion.

Given that important import volumes stem from Russia and Algeria and thus a large share of embedded emissions, direct engagement with these two countries should be a priority.

Focus of relations with international organisations

The purpose of external action should be to develop more robust reporting, better science, deliver regulatory assistance in supplier countries and take-up of satellite data as it becomes available. The EU has been a leader in this area through its support of the Mineral Methane Initiative (MMI) that is hosted by the [Climate & Clean Air Coalition](#) (CCAC) under the auspices of UNEP. The definition of the harmonised OGMP2.0 reporting standard is a big step forward and national governments need to step up by using their diplomatic capacity to increase global membership.

Both the EU and national governments need to ensure the financial sustainability and independence of methane emission science as well as foster market creation activities for services integrating the science with the emerging flow of data from satellites. Scaling up the MMI programs in partnership with other gas producing or consuming countries is an essential component of a comprehensive EU methane strategy as is market creation for information services tailored to regulators and governments, investors, citizens and consumers.

Overall, focus on EU policy for upstream methane emissions that applies to both domestic as well imported natural gas and a clear mandate for both regulators and ministries to act is a key enabling framework for both domestic and external action.