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COVER NOTE

From:	Secretary-General of the European Commission, signed by Ms Martine DEPREZ, Director
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To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union

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Subject:	COMMISSION STAFF WORKING DOCUMENT EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT REPORT Accompanying the Proposal for a Regulation of the European Parliament and of the Council on methane emissions reduction in the energy sector and amending Regulation (EU) 2019/942

Delegations will find attached document SWD(2021) 460 final.

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COMMISSION STAFF WORKING DOCUMENT
EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT REPORT
Accompanying the
Proposal for a Regulation of the European Parliament and of the Council
on methane emissions reduction in the energy sector and amending Regulation (EU)
2019/942

{COM(2021) 805 final} - {SEC(2021) 432 final} - {SWD(2021) 459 final}

Executive Summary Sheet
Impact assessment on a proposal for a legislative act to reduce methane emissions in the oil, gas and coal sectors
A. Need for action
What is the problem and why is it a problem at EU level?
<p>The European Green Deal puts the EU on a path to climate neutrality by 2050 through the deep decarbonisation of all sectors of the economy. Methane is a powerful greenhouse gas, second only to carbon dioxide in its overall contribution to climate change and responsible for about one third of current climate warming. The Intergovernmental Panel on Climate Change notes that deep reductions in methane emissions must be achieved by 2030 for the world to stay below the 1.5°C (or even the 2°C) 2050 global temperature target. The 2030 Climate Target Plan's impact assessment indicates that the most cost-effective methane emission savings can be achieved in the energy sector. These emissions are a transboundary problem and uncoordinated regulatory treatment across Member States and sectors creates gaps and inefficiencies and may impair the functioning of the EU's single market for energy. As the majority of methane emissions linked to fossil energy consumed within the EU occur outside the EU, only joint action by Member States could present results in this field.</p>
What should be achieved?
<p>The general objective is, in the context of the functioning of the internal market for energy and while ensuring security of supply in the Union, to preserve and improve the environment by reducing methane emissions from fossil energy produced or consumed in the EU. The specific objectives are 1) improve the accuracy of information on the main sources of methane emissions associated with energy consumed in the EU, 2) ensure further effective mitigation of methane emissions across the energy supply chain in the EU and 3) reduce methane emissions related to fossil energy imported to the EU.</p>
What is the value added of action at the EU level (subsidiarity)?
<p>The reduction of methane emissions across the EU would benefit from a homogeneous policy approach at the EU level given the strong interlinkage between Member States through cross-border infrastructure and the integrated EU energy market. Coordinated action at the EU level has a much higher chance of leading to accelerated reductions in methane emissions in the energy sector along the value chain and facilitates the full consideration of the different capabilities to act among Member States and private entities. The EU and its Member States are part of a global oil market in which collective action carries more weight vis-à-vis exporters than individual national measures. The EU is also the biggest gas import market in the world and EU-level methane policy adds significant value for international climate action.</p>
B. Solutions
What are the various options to achieve the objectives? Is there a preferred option or not? If not, why?
<p>Policy area 1 considers options to improve measuring and reporting of methane emissions in the energy sector by obligating companies to carry out asset-level measurements and report direct emissions of methane for economic activities in the EU territory. Policy area 2 contains options for the mitigation of methane emissions in the EU, and includes Commission guidance or mandatory measures on mitigation of methane emissions in the oil and fossil gas sectors, mandatory measures on mitigation of methane emissions in the oil, fossil gas and coal sectors as well as indirect emissions and a legislative measure to achieve a certain reduction in methane emissions via a performance requirement. Policy area 3 contains options on measuring, reporting and mitigating methane emissions linked to EU fossil fuel consumption but occurring outside the EU, including transparency tools, mandatory measuring, reporting and mitigation of fossil energy emissions, transparency on measuring, reporting and mitigation of fossil energy sector emissions, and legislative measures to achieve a certain reduction in</p>

methane emissions.

All policy areas include a business as usual option. Preferred options have been identified for all three policy areas.

What are different stakeholders' views? Who supports which option?

Stakeholders expressed widespread support for developing a robust measurement, reporting and verification (MRV) standard for methane emissions in the energy sector. In the open public consultation (OPC), 78% of responses were in support of basing the oil and gas part of the MRV proposal on the methodology of the Oil and Gas Methane Partnership, which is also backed by all the EU oil and gas trade associations. There is very large support for including coal into an MRV regulation (96% of responses to the OPC), including by the coal industry.

There is widespread support for legislative measures to mitigate emissions in the oil, fossil gas and coal sectors. All oil and gas industry associations that provided a response to the OPC expressed support for putting into EU legislation an obligation on leak detection and repair (LDAR), and NGOs are also widely supportive of such an obligation. All NGOs and industry respondents to the OPC believe that it is feasible to phase out routine venting and flaring associated with energy produced and consumed in the EU. As regards the inclusion of mitigation measures of coalmine methane, the public consultation yielded high and widespread support (80% of responses).

Ninety-two percent of responses to the OPC are supportive of EU legislation on methane emissions in the energy sector covering all oil and gas entering the EU market. Specifically, 96% of responses are supportive of the development of a methane transparency tool at EU and international level. 72% of responses consider that EU legislation on methane emissions in the energy sector should extend obligations to companies importing fossil energy into the EU/companies exporting fossil energy to the EU, and 65% of responses consider that it is feasible to impose the same obligations on MRV, LDAR and venting and flaring equally on all actors of the oil and gas value chain for oil and gas consumed in the EU, including actors from outside of the EU.

C. Impacts of the preferred option

What are the benefits of the preferred option (if any, otherwise of main ones)?

Policy area 1: Imposes detailed (asset-level) measuring and reporting obligation on all direct fossil sources of methane emissions in the EU energy sector. The key benefit is that this will improve the level of reporting of such emissions and will increase understanding of the sources and magnitude of those emissions which will lead to more effective abatement of associated emissions.

Policy area 2: Imposes obligations to mitigate methane emissions on all direct fossil sources of oil, fossil gas and coal-related methane emissions in the EU energy sector, in terms of leak detection and repair and measures to limit venting and flaring. These will lead to greater abatement of methane emissions compared to a business as usual scenario, with associated environmental and social benefits in terms of slowing climate change and reducing air pollution.

Policy area 3: Puts forward various instruments dedicated to improving information on methane emission sources from countries exporting fossil energy to the EU as well as incentives for those countries to voluntarily abate their methane emissions or binding measures to achieve those. Similarly to policy area 2, reducing global methane emissions will have environmental and social benefits for the EU in particular in terms of slowing climate change.

What are the costs of the preferred option (if any, otherwise of main ones)?

Policy area 1: No public quantification of costs is available, the impact assessment is therefore based on voluntary estimations carried out to date by industry and their qualitative input, noting that there is strong support across stakeholders, including industry itself, for putting in place such an obligation.

Policy area 2: 127 million Euros in net costs incurred by operators; No quantified costs of verifying compliance and

of enforcement were available but the level of quantitative benefits are so significant compared to the costs of the abatement measures to companies, that the difference between the two is expected to more than adequately cover for all such costs; No quantified impacts of the costs of abatement measures on energy prices were available but the costs of the measures to operators (127 million Euros) are insignificant relative to the overall costs to the EU of purchasing oil, fossil gas and coal (184 billion Euros in 2020/287 billion Euros in 2019) such that they would be negligible.

Policy area 3: No quantified costs were available of the measures to abate methane emissions occurring abroad but linked to EU consumption of fossil energy. Estimations of the total costs of all abatement measures across a sample of the largest oil and fossil gas exporting countries were used instead as proxy. At social/environmental optimal level of abatement, they amount to 2,216 million Euros; No quantified costs of verifying compliance and of enforcement were available but the level of quantitative benefits across a sample of the largest oil and fossil gas exporting countries to the EU are so significant compared to the costs of the abatement measures to companies, that the difference between the two is expected to more than adequately cover for all such costs; No quantified impacts of abatement measures on energy prices were available but the level of costs across a sample of the largest oil and fossil exporting countries to the EU are small (2,607 million Euros) relative to the costs to the EU of purchasing oil, fossil gas and coal (184 billion Euros in 2020/287 billion Euros in 2019) that they would unlikely be significant.

What are the impacts on SMEs and competitiveness?

Coal, fossil gas and oil operators responsible for emitting methane along the value chains are not small enterprises. Impacts on competitiveness are not expected for companies within the EU as all will be equally obligated by the measures proposed in the preferred options in policy areas 1 and 2. The preferred option in policy area 3 is the one most likely to minimise impacts on competitiveness of EU operators as it is the option aiming to achieve a level playing field.

Will there be significant impacts on national budgets and administrations?

Not in the EU. While the measures included in the preferred options will lead to extra costs and administrative burden in the EU, these will not be significant for the following principle reasons: as regards policy area 1, data reporting on methane emissions is already being undertaken by EU Member States; as regards policy area 2, verification of measures to abate methane emissions is already being undertaken by EU Member States. In policy area 3 in non-EU countries with minimal or non-existent methane regulations, the costs and administrative burden will be more important.

Will there be other significant impacts?

No.

Proportionality?

The preferred set of options is considered proportionate and builds to the extent possible on existing approaches. The balance between obligations and consideration of the different capabilities to act among Member States and private entities is considered appropriate given the imperative of achieving climate neutrality.

D. Follow up

When will the policy be reviewed?

The Commission will monitor implementation of the legal act and its correct application. If necessary, the Commission will take enforcement action, including infringement procedures.