EU Emission Trading Scheme:

Compensation for indicect emission costs

Brussels, 22 October 2018

The refining sector, deemed exposed to a significant risk of carbon leakage for the EU ETS period 2021-2030[1], must also be compensated for the indirect emission costs

In the absence of global climate policies with a comparable ambition level to the EU ETS, and because of the strong exposure to international competition[2], it is essential to compensate the refining sector for indirect emission costs. The refining sector is electro intensive, using 32,000 Gigawatt hours in 2015[3], and we anticipate this trend continuing. Being ineligible for cost compensation would reduce our sector's contribution to the EU low carbon economy when compared to other already compensated energy intensive sectors, as there would be no level playing field when using novel electricity-based low carbon technologies (e.g. hydrogen produced by RES-E).

FuelsEurope welcomes the revised ETS directive (article 10.a.6) that enables Member States to implement financial measures in favour of sectors and sub-sectors that are exposed to a genuine risk of carbon leakage due to significant costs that are actually incurred from GHG emission costs passed on in electricity prices in line with the EU state aid rules, so as to in particular do not cause undue distortions of competition in the internal market.

The current Guidelines on certain State aid measures in the context of the greenhouse gas emission allowance trading scheme post 2012 are applicable until 31 December 2020 and will therefore have to be revised with a view to apply from the beginning of the ETS period 2021-2030.

FuelsEurope proposes that in line with Article 10b (1) of the revised ETS directive regarding the transitional measures to support certain energy intensive industries, the Guidelines must define the sectors and sub-sectors that are eligible for aid as those deemed to be exposed to a significant risk of carbon leakage on an EU-wide quantitative basis under EU ETS 2021-2030 rules where the 'carbon leakage indicator' exceeds the 0,2 threshold when multiplying the trade intensity and the <u>indirect</u> emission intensity. This aid, however, should also strictly be proportional to the ETS-induced cost increase and be based on the refinery product-specific electricity consumption efficiency benchmark that is calculated by multiplying the refinery benchmark product by the share of relevant indirect emissions.

FuelsEurope, the voice of the European petroleum refining industry

FuelsEurope represents with the EU institutions the interest of 41 companies operating refineries in the EU. Members account for almost 100% of EU petroleum refining capacity and more than 75% of EU motor fuel retail sales.

FuelsEurope aims to promote economically and environmentally sustainable refining, supply and use of petroleum products in the EU, by providing input and expert advice to the EU institutions, Member State Governments and the wider community and thus contributing in a constructive and pro-active way to the development and implementation of EU policies and regulations.

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[1] The manufacture of refined petroleum products (code NACE 1920) is on the preliminary carbon leakage list that includes the sectors deemed exposed to the significant risk of carbon leakage for the EU ETS period 2021-2030 (see annex 2 of the Preliminary Carbon Leakage List (Commission notice from 8.5.2018)). The carbon leakage factor which is the result of the trade intensity (25, 8%) and the emission (direct + indirect) intensity (12,471 kg CO2/EUR) equals 3,222 significantly above the 0, 2 threshold set in the directive article 10b.

[2] The EU Petroleum Refining Fitness Check performed by the EU Commission JRC in 2015 concluded that "*the quantified average regulatory cost impact corresponds to, at most, 25 % of EU refineries' observed net margin decline relative to competitor regions during 2000-2012)*". "*The impact of the EU ETS on the competitiveness of the oil refining sector would need to be reassessed in the third and later phases. […] the third phase is expected to become more costly for the affected sectors. […] this will be associated with an increasing cost pressure on the industries covered. It is, therefore, of increasing importance to balance the protection of competitiveness in these industries with the overall goals of the ETS*".

[3] Concawe data (to be published in 2018)

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