

FuelsEurope's Recommendations on the 2030 Energy and Climate Policies

Brussels, 21st February 2014

Executive Summary

The framework package for energy and climate to 2030 proposed by the Commission clearly identifies Europe's competitiveness as an important success factor but still leaves many concerns and open questions on how the proposed policies can create the necessary framework conditions for a competitive EU economy.

FuelsEurope believes that the Commission proposals must now serve as a basis for much wider stakeholder debate about Europe's path to 2030, before binding targets and measures are adopted, particularly those which could harm the competitiveness of European industry:

- **A realistic EU-wide GHG reduction target** must be the central driver of EU climate and energy policies and measures, in support of the most efficient and cost-effective pathway to progressive decarbonisation of the EU economy. However, the EU's share in global emissions is becoming less and less relevant and it is therefore essential to know the relevant commitments of our major competitors, before firmly committing to such an ambitious target;
- **Achieving the proposed reduction target for ETS sector** (43% by 2030 vs. 2005) is not realistic for the Refining industry, except by reducing capacity and transferring it outside the EU. An increased ETS Linear Reduction Factor, without clarity on carbon leakage protection post-2020, will further erode the Refining industry's international competitiveness and could lead to further loss of capacity in Europe. Key assumptions regarding the trajectory for cost effective reduction and the split between ETS and non-ETS sectors also need to be thoroughly tested;
- While industry welcomes the additional clarity on carbon leakage protection until 2020, **the industry regrets that protection measures are missing from the Commission's legislative proposals for the period after 2020**. We are also concerned that an increase in the level of ambition for 2030 could result in lower levels of compensation or protection restricted to fewer sectors;
- FuelsEurope calls for energy policies to be based on **technology neutrality and a level playing field for all energy sources**: the overlap between the renewables and the GHG emissions reduction targets has been distorting the carbon price signal within the ETS, to the detriment of an optimal and cost-effective adoption of technology neutral solutions for carbon abatement. **The inclusion of an EU binding renewables target to be implemented through a complex governance proposal detracts from the clarity of the one single GHG target as a driver**;
- **The framework for decarbonizing road transport should consist of simple integrated policies** that include fuels, vehicles, customer choice and infrastructure. To ensure policy coherence, we are ready to work with the EU Institutions to provide clarity on the policy design for transport post 2020;
- **Regarding security of supply**, FuelsEurope supports the three-pronged approach proposed by the Commission (development of indigenous resources, including conventional and unconventional fossil fuels, diversification of supply sources for fossil fuels and promotion of energy efficiency) and would also add to them a rigorous enforcement of the third energy package into national laws;

For all these reasons FuelsEurope looks forward to contributing our industry's experience and ideas to this very important debate.

Introduction

In anticipation of new EU policy proposals, proposed “Four Keys to Unlock EU Growth”:

1. Balance: A better balance of policy drivers between competitiveness, sustainability and security of energy supply.
2. Evaluate: More evidence based evaluation for policy setting.
3. Access: to competitively priced energy and raw materials for the EU
4. Realism: learn past lessons and consider the EU's competition with and impact on other regions of the world.

The framework package for energy and climate to 2030 proposed by the Commission considers some of these keys to some extent but still leaves many concerns and open questions on how this can create a competitive EU economy.

It shows some realism in taking into account some of the experience gained since the 2008 20/20/20 package; recognising the need to continue carbon leakage measures for internationally exposed sectors and more focus on a GHG target as the key driver for emissions reductions are welcome.

FuelsEurope also considers an encouraging signal that, the competitiveness of the EU economy has now been recognized as critical and at the same priority level as climate policy: the Commission's communication “**for a European Industrial Renaissance**” (22nd January 2014) is a welcome confirmation of the importance of a strong domestic industrial basis as a key driving force for Europe's economic recovery and competitiveness.

However, there remain strong concerns on balance: how effectively competitiveness and cost effectiveness have really been put back into the policy mix; formal declarations *per-se* are not sufficient and must be followed by balanced policy proposals and an implementable strategy for such a renaissance.

The framework still sets the EU on a solitary path regardless of the actions of the rest of the world an EU GHG reduction target of 40% is extremely ambitious as a unilateral EU target without waiting for similar commitments from other competing regions. However, a resulting target of 43% reduction for ETS sectors by 2030 lacks realism; there are no credible technologies available to Refining that could achieve such an emissions reduction so quickly. Refining is not alone amongst Energy Intensive Industries in this respect and current crisis which it is currently facing would get worse. Since 2008, this crisis has led to the closure of 15 refineries (of 100). The highly qualified jobs, the economic value added, the technological leadership and the deep integration in the supply chain of large parts of EU manufacturing industry are all at stake.

The package opens the door for energy costs to continue to be higher than competitors through overlapping binding targets for renewables and it also leaves many questions open on other measures. Careful evaluation of measures will be essential, as will renewed emphasis on access to competitively priced energy and raw materials.

FuelsEurope therefore believes that the Commission proposals must now serve as a basis for much wider stakeholder debate about Europe's path to 2030, before binding targets and measures are adopted, and particularly those which could harm the competitiveness of European industry if other regions do not implement equivalent measures. For these reasons FuelsEurope looks forward to contributing our industry's experience and ideas to this very important debate.

Analysis of the main elements of the 2030 package

- **Greenhouse gas emission target: 40% in 2030 vs. 1990**

A realistic EU-wide GHG reduction target must be the central driver of EU climate and energy policies and measures, in support of the most efficient and cost-effective pathway to progressive decarbonisation of the EU economy.

However, it is essential for the EU to know what will be contribution that its major competitors will make, before firmly committing to such an ambitious target. While acknowledging the desire of the EU to continue to show leadership in up-coming global talks to tackle climate change, we need realism: the EU accounted for only 11% of global CO₂ emissions in 2011 and will see its share shrinking to less than 7% in 2035¹. Even the most aggressive reduction measures – if unilateral – would be almost irrelevant in the global balance.

According to the Commission proposal, access to international credits should be restricted after 2020, but it is worth remembering that such credits also facilitate international participation in GHG emissions reduction thus paving the way towards an international agreement and or bilateral agreements with other nations.

Achieving the proposed reduction target for ETS sector (43% by 2030 vs. 2005) is not realistic for the Refining industry, except by transferring capacity outside Europe. Despite continued efficiency improvements which make EU refining amongst the best in the world, legislative requirements regarding the quality of our fuels (e.g. bunker fuels) increase refineries' GHG emissions (the so-called "Refining paradox"). Such a target through an increased ETS Linear Reduction Factor, without clarity on carbon leakage protection post-2020, will further erode the Refining industry's international competitiveness and could lead to further loss of capacity in Europe. There are no current cost effective technologies available that could achieve such an emissions reduction in our sector.

The trajectory for cost effective reduction and the split between ETS and non-ETS sectors is based upon a few key assumptions and the sensitivity of the chosen path should be thoroughly tested against any variability in these. For example, we believe that improving energy efficiency, particularly in end use sectors such as buildings, offers a cost effective means to reduce energy use and GHG emissions.

RECOMMENDATION:

- ✓ *Europe's level of commitment for 2030 should take account of the differing pace of commitments by other countries. It must not damage EU competitiveness and should rather include mechanisms to preserve it.*
- ✓ *Support the use of international offsets in EU ETS which are subject to robust reporting, monitoring and verification.*

¹ *IEA World Energy Outlook 2013, New Policies Scenario*

- **Carbon leakage protection**

The 2030 package very sensibly recognises the key importance of effective measures to prevent carbon leakage, at least until competing regions will have adopted GHG reduction policies comparable to the EU ones. The continuity in the criteria and assumptions (including the cost of carbon at 30 €/ton) to determine the list of sectors for carbon leakage protection until 2019 is therefore a positive step.

It is indeed vital that Europe's ambition for 2030 be accompanied by strong measures to protect industry against carbon leakage. However, even if such protection is maintained after 2020, the level of free allocation will diminish in line with the proposed level of ambition: recent decisions (back-loading, cross-sectoral correction factor) and reform ambitions coming from the Commission will result in an erosion of measures foreseen in the EU ETS Directive to protect industry from carbon leakage. Lower levels of free allocation would make carbon leakage protection less efficient, even for most efficient installations that would start to bear significant carbon costs after 2020.

In order to solve this problem the Commission is proposing a "better focus" – possibly implying the exclusion of some sectors. This leaves a shadow of doubt and risks undermining investors' confidence. For the Refining sector, it is vital to receive protection until competing refineries from other regions of the world are subject to GHG reduction policies of a comparable nature and cost.

RECOMMENDATION:

- ✓ *Endorse the proposal to extend the carbon leakage list criteria to 2019 and extend it to the end of phase III.*
- ✓ *Extend carbon leakage protection for all exposed sectors beyond Phase III and until a global true level playing field is achieved.*
- ✓ *Call for immediate legislative proposals from the Commission to ensure carbon leakage protection post-2020.*
- ✓ *Compensation of indirect CO₂ costs should not be at Member State choice. It should be available to any installation deemed at risk of carbon leakage;*

- **Reforms to the EU ETS**

FuelsEurope supports the EU ETS as the EU's 'flagship instrument' within its energy and climate policy framework, as a cost-effective market mechanism for emissions reduction in the power and industry sector.

Missing from the Commission's legislative proposal on the EU ETS is an appropriate scheme to protect against C leakage that must remain in place to protect EU industry from carbon leakage effects after 2020. The Commission analysis should also be complemented with Phase III emission data.

RECOMMENDATION:

Any proposal to reform the EU ETS should be:

- ✓ *Accompanied by measures to address carbon leakage post-2020,*
- ✓ *Analysed based on data from Phase III.*

- **Renewable energy target: 27% at EU level in 2030**

FuelsEurope calls for energy policies to be based on technology neutrality and a level playing field for all energy sources. The proposed renewable target neglects one of the key lessons from the 20/20/20 package: the overlap with the GHG emissions reduction target has been distorting the carbon price signal within the

ETS, to the detriment of an optimal and cost-effective adoption of technology neutral solutions for carbon abatement.

FuelsEurope calls for energy policies to be based on technology neutrality and a level playing field for all energy sources. We recognise the need to support R&D to bring promising low-carbon technologies to the market, but all energy sources should be integrated into the market under normal market conditions, without subsidies (including system connection, balancing cost and exposure to price risk) as soon as possible. In fact, production subsidies for all fuels should be phased out². In doing this, cost-effective renewables will compete with conventional energy sources, and a level playing field amongst low-carbon and other energy sources will be achieved via the carbon price.

The inclusion of an EU binding renewables target to be implemented through a complex governance proposal detracts from the clarity of the one single GHG target as a driver.

RECOMMENDATION:

- ✓ *The current mandatory renewables target has been distorting the carbon price signal within the EU ETS and has crowded out more cost-effective means of GHG reduction. Therefore the EU should avoid renewables target for 2030, particularly if they overlap with the central carbon abatement mechanism.*

- **Transport sector after 2020**

The current pieces of regulation, the Renewable Energy (RED) and Fuels Quality (FQD) directives have been overly complex and extremely difficult to interpret and implement. At this point it would be useful to take stock of what we have learnt and try to ensure that an environmental and cost effective approach be put in place post 2020. To ensure policy coherence, we are ready to work with the EU Institutions to provide clarity on the policy design for transport post 2020.

Transport can help Europe to meet its 2030 objectives provided there is a stable, coherent and overarching 2030 road transport policy at the core of the EU's sustainable transport strategy; one which will keep energy costs at competitive levels compared with other regions as well as stimulate long-term investment in transport in a technology neutral manner. The framework for decarbonizing road transport should consist of integrated policies that include fuels, vehicles, customer choice and infrastructure

RECOMMENDATION:

- ✓ We are ready to work with the EU institutions to provide clarity on the policy design for transport fuels post 2020 and to take stock on what was learnt to try to ensure an environmental and cost effective approach can be put in place post 2020.

- **Security of energy supply**

FuelsEurope welcomes the Commission's stated intention to promote the security of energy supply, interpreted as access to continuous and adequate supply of energy for all EU users at a competitive cost. We also support the three-pronged approach proposed by the Commission (development of indigenous resources, including conventional and unconventional fossil fuels, diversification of supply sources for fossil fuels and promotion of

² FuelsEurope stresses that tax relief on capital spend is common practice. Moreover reduced tax rates from very high levels (e.g. in the EU, the tax component of gasoline and diesel is between 40% and 61% of the end consumer price) should not be considered as subsidies and certainly should not be put in the same category as complete tax exemption.

energy efficiency) and would also add to them a rigorous enforcement of the third energy package into national laws.

Consistently with these principles, FuelsEurope believes that a competitive EU refining industry needs to secure reliable and unhindered access to fossil fuels sources (both conventional and unconventional) available in the global market, at a price established in a free-market. Therefore, the EU should reject regulations that would undermine competitive access to energy sources, as is the case with the current proposal to differentiate automotive fuels based on the feedstock of origin under art 7a of the Fuel Quality Directive.

RECOMMENDATION:

- ✓ *Before designing any new policy and regulation in the energy and climate framework, perform an impact assessment and a competitiveness proofing to thoroughly evaluate potential effects on security of supply, in order to ensure continuous access and adequate supply of energy at competitive price for all EU users.*

– ENDS –

FuelsEurope, the voice of the European petroleum refining industry

FuelsEurope represents with the EU institutions the interest of 43 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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