

## FuelsEurope's recommendations on the European Energy Union

Brussels, 5<sup>th</sup> February 2015

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### **EXECUTIVE SUMMARY**

The launch of the European Energy Union is a very welcome initiative, and FuelsEurope is looking forward to contributing to the process led by the new European Commission. Today more than ever, secure, affordable and sustainable energy is a vital element for economic recovery in the EU. The integrated approach whereby several Commissioners will jointly define the Energy Union policy is best suited to identify and address possible trade-offs between competitiveness, sustainability and security of supply.

#### **First dimension: security of supply**

- Oil products, not just electricity and gas, are essential to the EU security of energy supply.
- A competitive domestic refining industry, unrestricted access to crude oils and a single EU market for oil products are necessary conditions for the resilience and competitiveness of the EU economy.
- Domestic oil and gas resources can provide an important contribution to the EU security of supply.
- Renewable energy sources can contribute to the EU's security of supply, provided they have a credible pathway to an economically self-sustainable future.

#### **Second dimension: the internal energy market**

- Creating the conditions for reducing EU's energy prices, which severely hinder the international competitiveness of EU industry and burden consumers, should be a top priority
- The transition to a low carbon economy should be managed based on realistic assumptions and - until competitive alternative energies are available - without compromising existing infrastructures.

#### **Third dimension: energy efficiency**

- Policies should focus on those sectors which react less to economic signals and where energy consumption can be cut at negative or low cost.
- Technology-neutral fuel economy measures in transport are effective, while technology mandates often result in market distortion and sub-optimal allocation of resources.

#### **Fourth dimension: decarbonisation of the EU energy mix**

- The EU's diplomatic actions aiming at an international binding agreement on climate change are strongly supported.
- Until a global level playing field is achieved, effective carbon leakage protection for the EU's energy-intensive industries exposed to international competition is necessary to prevent damage to the EU economy and to the global environment.

#### **Fifth dimension: support to innovative technologies**

- Funding schemes for promising new technologies are more effective and beneficial than mandates.
- Support for innovative technologies should be technology neutral and time / cost limited.

## INTRODUCTION

FuelsEurope welcomes the Commission's launch of the European Energy Union and believes that under the right conditions, this will help the European Union to benefit from secure, affordable and sustainable energy. We fully support the **integrated approach** taken by the new Commission and believe that strong coordination among Commissioners should better allow the identification of possible trade-offs between various objectives.

## SECURITY OF SUPPLY

We fully support the EU putting major efforts towards the creation of **a genuine internal market for EU gas and electricity**; however the role that **oil and oil products** play and will continue to play in the EU, and therefore their importance for security of supply should not be underestimated. Over 90% of the current energy used in EU transport comes from petroleum products. Thanks to a diverse source of crude oils (from some 40 countries in 2013), to a very reliable domestic refining industry and to a flexible distribution network, the EU economy and consumers can count on a secure supply of petroleum products.

However robust the EU's oil refining and distribution industry has proven to be until today, several challenges should be addressed in the Energy Union, with particular attention to the following aspects:

- **Adequate consideration of the importance of the EU domestic refining industry.** If the current trend of shut down of EU refineries continues at a faster pace than the reduction in domestic oil products demand, the import dependency of strategic products like diesel and jet fuel would further increase. The resilience of the EU economy would significantly weaken, making it more exposed to supply disruptions resulting from international crises and/or to the policy decisions of key exporting countries and regions. Regulations imposing a disproportionate economic burden on EU refining could contribute to the acceleration of domestic capacity reductions and should be avoided.
- **Open access to crude oils:** continued and unrestricted access to all crude oils at market conditions and without artificial limitations is vital ; the EU should avoid putting in place measures and regulations whose result . intended or unintended . would be to restrict the access to any crude oils. Moreover, the TTIP currently under discussion is a very good opportunity for the EU industry to gain access to the US domestic crudes, which, as a result of the US regulatory export ban, are currently available to US refineries only;
- **A single market for oil products.** The EU has an internal market for oil products; key enablers for the robustness and flexibility of the EU's distribution system of oil products are the existence of homogenous product standards, the absence of barriers to the free movement of products within the EU market and transparent EU pricing systems. To preserve this, EU Member States should set specifications and measures fully consistent with those at EU level and refrain from imposing country-specific rules.

Domestic resources such as **conventional and non-conventional oil and gas** should also be recognised as a key contributor to the EU's security of supply. Barriers to the exploration, development and production of such indigenous resources should be removed while fully respecting EU's environmental and safety standards.

Finally, the notion of %energy independence+through further deployment and mandating of **renewable energy sources** may be misleading. Alternative energy sources will contribute to the EU's energy security if they can demonstrate that they have a credible pathway to an economically self-sustainable future. If on the contrary, they are forced via binding targets, they will result in sub-optimal allocation of resources and . ultimately . in higher energy prices, to the detriment of the EU economy and consumers.

## THE INTERNAL ENERGY MARKET

A competitive EU industry needs a strong pan-European energy infrastructure, a true EU-wide internal market and internationally competitive energy prices. As outlined in the previous section, an efficient internal energy market must allow the continued free flow of oil products within the EU. Barriers should be removed and consistent fiscal measures and technical standards are needed to enable a competitive internal market.

In order to maintain a strong industrial base in Europe, **fighting against high energy prices** should be among the EU's absolute priorities. The heavy impact of taxes and levies, in addition to higher costs of energy in Europe, result in a significant energy price differential between EU industry and its global competitors and must therefore be addressed. **Support schemes for renewable energy** also result in higher energy prices for consumers; subsidies to mature technologies should therefore be progressively phased out so they compete on their merits with other energy sources.

FuelsEurope supports the idea of considering in detail the **level of investment needed for the transition to a low-carbon economy**. We recommend that the nature and level of such investments be carefully assessed, taking into account also the availability of financial resources. In view of the importance of both short and long-term economic impacts, we strongly support the suggestions made by the Advisory Group to the Energy Roadmap in 2011<sup>1</sup> that the analysis and assumptions of the 2050 Roadmaps should be opened up to further scrutiny. We believe that due to the highly aggregated nature of the analysis performed in the 2050 Roadmaps, both the sheer scale of reshaping the energy systems and its impacts may have been underestimated.

A successful transition to a competitive lower carbon economy must ensure that, until competitive and economically sustainable alternative energies are available to the EU, **existing infrastructures can continue to support the industry and consumers**.

## ENERGY EFFICIENCY

Improved energy efficiency in the EU will help to conserve resources and to safeguard international competitiveness. It will also reduce the EU's greenhouse gas emissions. For these reasons, FuelsEurope strongly supports energy efficiency being one dimension of the Commission's strategy.

For the EU refining sector, energy represents about 60% of total operating costs: this, in addition to the price signal from the EU ETS, is in itself a strong incentive to achieve high energy efficiency and therefore represents a key performance indicator for the operation of refineries. Where such strong market forces create the economic incentive, mandated energy efficiency targets are not required.

At the same time, a revision of the Energy Efficiency Directive is needed to adapt the framework of energy efficiency measures, making sure that they have real effect on consumers and on those parts of industry which do not react to economic signals. **Future policies should first focus on those energy users where progress can potentially be made at negative or low cost**. Buildings, accounting for about 40% of EU energy use, have a high potential for energy savings and should thus be the focus of measures to tackle energy efficiency, particularly because this economic sector is little reactive to economic and market signals and is not covered by the EU ETS.

Cost-efficiency of measures should also be the focus in the **transport sector**. FuelsEurope supports fuel economy measures which offer most cost effective CO<sub>2</sub> abatement opportunities from a technology-neutral

<sup>1</sup> Commission staff working paper . Final report of the Advisory Group on the Energy Roadmap 2050+- SEC(2011) 1569 final

approach; we do not support the adoption of alternative fuels target expressed as technology mandates. Mandates often result in sub-optimal allocation of resources and unintended consequences. Moreover, when target setting is based on top-down policy objectives rather than on data-based assessment of technically achievable and economically sustainable targets, it often results in unachievable objectives with severe distortions to the market.

As a general approach, **technology neutrality** is the most suitable principle to enable the development of the most economically sustainable solutions to energy efficiency in those sectors of the economy that respond to market signals.

### DECARBONISATION OF THE EU ENERGY MIX

FuelsEurope welcomes the EU's engagement in diplomatic actions aimed to achieve an international binding agreement on climate change. A binding commitment to reduce GHG emissions with comparable efforts and measures among the main global industrial powers is the only long term solution to an effective climate action while at the same time creating a competitive global level playing field among respective industries. Until such agreement is reached and such level playing field is established, the competitiveness of the EU industry must be protected with effective carbon leakage measures.

European refineries collectively are amongst the most efficient in the world in terms of GHG emissions intensity. The EU Refining sector was also identified in the 2013 European Competitiveness Report as the most successful sector for process innovation. However our industry is going through a severe crisis leading to a strong reduction of its capacity in the EU. This will be further aggravated if the exposure of the industry to the price of carbon becomes too high. The potential relocation of industrial activities to third countries without comparable carbon constraints is likely to result in higher global GHG emissions, besides representing a substantial loss of economic value for the EU. According to a recent study<sup>2</sup> commissioned by the UK Department for Energy and Climate Change, since EU refineries are on average less emissions-intensive than non-EU refineries, an incomplete environmental regulation is associated with a net increase in global emissions from the refining sector.

FuelsEurope therefore welcomes the European Council's decision to put in place effective **carbon leakage protection** as long as no comparable efforts are undertaken in other major economies, *with the objective of providing appropriate levels of support for sectors at risk of losing international competitiveness*. The current system of free allocation does not provide sufficient protection from carbon leakage. Contrary to most other sectors, refining received total free allocation for only 79% of its emissions in 2013, with a negative impact on its international competitiveness. To provide adequate protection for the European refining industry against carbon leakage, free allocation needs to **fully cover direct emissions for best performing installations**, and address **the indirect costs of ETS embedded in electricity prices**. Hence there should be no limit to overall free allocation to industry and the cross sectoral correction factor (CSCF) should not be employed.

### SUPPORT TO INNOVATIVE TECHNOLOGIES

FuelsEurope believes that funding schemes such as Horizon 2020 and SET programmes to support promising and innovative technologies may bring more significant and cost-effective results than current renewables mandates.

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(2) Carbon leakage prospects under Phase III of the EU ETS and beyond, Vivid Economics . ECOFYS, December 2013

Support for innovative technologies should be **technology neutral** as well as **time- and cost- limited**. All energy sources should be integrated under normal market conditions, without subsidies (including system connection, balancing cost and exposure to price risk) as soon as possible. More and more, the merits of different energy sources in terms of GHG emissions must be recognised via the carbon price.

- END -

#### FuelsEurope, the voice of the European petroleum refining industry

FuelsEurope represents with the EU institutions the interest of 42 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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