

EUROPIA response to the European Commission's stock taking document: "Towards a new Energy Strategy for Europe 2011-2020"

2nd July 2010

Introduction

EUROPIA is the voice of the refining and marketing branches of the European oil industry.

EUROPIA welcomed the 2007 Energy package and welcomes now the opportunity to submit its views on the 2011-2020 Energy Strategy. We applaud the Commission for taking a longer-term view of energy policy and inviting debate on the approach and actions envisaged to deliver the policy goals. Affordable energy is a key requisite for economic growth.

EUROPIA supports the objectives underpinning the new Energy Strategy, namely the provision of safe, secure, sustainable and affordable energy. The recognition of energy as a global issue and the interdependence of the global energy landscape is a strong feature of the strategy.

However we believe that the role of oil, the EU refining sector and oil products have in enabling European growth and prosperity should be better recognised in the stock taking document. The transition to a resource efficient Europe will be gradual and oil will still account for more than a third of energy demand by 2030.

Oil refining is an essential element of the supply chain to the customer and a healthy refining sector in Europe has a key role in supply security. Indeed the IEA forecasts in its most ambitious 450ppm CO₂eq scenario that 80% of transport fuels will remain oil based by 2030; Refining is also closely integrated with petrochemicals, contributing major value to the wider European economy by ensuring reliable supply of feedstocks.

The EU is creating, perhaps inadvertently, the conditions for a continuing disengagement by current operators of refining in the EU. But, with the right conditions in place, the EU Refining Sector will continue to play a vital role in both supporting economic activity as it has done over the past century; and in developing the energy products of the future enabling a gradual transition to a more resource efficient society.

EUROPIA has prepared a White paper on EU Refining as a contribution of the refining industry to this important EU energy debate. For reference, the link is: www.europia20years.com.

EUROPIA proposal for key elements of a new Energy Strategy

- As the EU diversifies its energy supplies, new energy supplies must be cost effective and affordable for the consumer.
- Energy efficiency is the first source of “new” energy. “Energy saved is energy found”.
- Reliable and secure energy supplies are vital: a healthy EU refining sector is an essential element of supply security to the EU consumer.
- The EU Refining Industry contributes to EU mobility and economic value; Refined oil products will remain key in Europe for many years to come.
- The EU must develop appropriate policies to meet these objectives: policies that are predictable and coherent; avoid undermining EU competitiveness; technology neutral; and a careful balance between market based instruments and regulation.

These elements are further developed below.

1. Taking stock of progress since the 2007 Energy Action Plan

EUROPIA agrees that a well functioning, competitive, internal energy market is essential for the long term energy and climate objectives pursued by the EU. EUROPIA and its members have contributed constructively to the development and implementation of many of the measures highlighted as achievements, especially the CARE package. In particular, we support the EU Emission Trading System (EU ETS) as a means of promoting cost effective abatement measures in EU industry, whilst seeking to mitigate its effects on industries exposed to international competition. We also support the principle of not distorting investment signals.

However national implementation of EU energy legislation is poor, in particular the completion of the EU internal energy market via the third internal energy market package. As the document rightly points out, for European energy policy to be effective, the EU legislative framework is one step but correct application across EU-27 is a prerequisite to a well-functioning energy market and the only means to level the playing field for operators and consumers throughout the EU. The recent study by EconPoyry for the Commission on the oil and oil product markets concluded that these, in general, do show the characteristics of competitive markets.

Energy savings offer a significant potential for further improvement, under utilised in the 2007 Action Plan. EUROPIA members are fully committed to the goal of energy efficiency as a potential effective way of meeting their targets under ETS. For the non ETS sectors, domestic measures and international cooperation in energy efficiency are to be encouraged, given their significant untapped energy efficiency potential. We agree that domestic measures and international cooperation in this area are to be encouraged, and believe there is significant untapped potential in the non industrial sectors of the economy.

The oil industry, both upstream and downstream, has been strongly instrumental in ensuring secure oil product supplies to consumers. Despite the fact that the Refining sector and the importance of its products is not recognised in the Energy Action Plan, we note with satisfaction the recognition of advances in the introduction of cleaner fuels and have taken note of the intention to complement current fuels and vehicle standards with further measures, including advanced bio fuels, an area we would like to offer further comment on in our recommendations for “next steps”.

2. Next steps

What must the new energy strategy deliver?

We acknowledge the long-term direction promoted by the EU towards a lower carbon economy and we want to contribute to shaping it.

Secure energy supply is a fundamental need of modern society. Reliable and affordable energy products and raw materials are essential elements for a successful transition to a low carbon economy. Oil will continue to play an important role in the EU's energy mix for the foreseeable future, accounting for more than a third of energy demand by 2030.

The transition to a lower carbon society will be gradual and occur over a long period of time. Although demand will be met by various forms of energy, international agencies, governments and analysts consistently conclude that the EU will continue to rely on oil-based refined products for transport and petrochemicals for many more years. Indeed the IEA forecasts in its most ambitious 450 ppmCO₂eq scenario that 80% of transport fuels will remain oil based by 2030.

It is therefore vital that the rationale and feasibility – economic and environmental – for a complete decarbonisation of the transportation sector is clearly established and demonstrated on the basis of a sound and thorough analysis if this is to be a corner stone of the strategy.

Whether essential oil products will continue to be refined and processed in the EU is therefore of strategic importance for the EU's prosperity and security. The Refining Industry is a major provider of skilled jobs, know-how and fiscal revenue which are essential to inclusive growth. A robust domestic refining industry underpins mobility and competitiveness in the EU, and must be an important part of the energy strategy.

We would therefore like to highlight four points that we think are of the utmost importance for the new EU energy strategy.

2.1 New energy supplies must be cost-effective and affordable for the consumer

Many experts predict that over the next decades the energy our society uses will come from a wider range of sources, such as wind, solar, geothermal, etc., in addition to the need for clean coal technology and gas from both conventional and unconventional sources. However, most of these same experts also agree that oil will continue to supply a large proportion of transport demand and provide industrial feed stocks in 2030, and most likely beyond. This continued demand for oil products can be supplied by the European refining industry or via imports from outside the EU. While the conclusions of the document state that achievement of the 2020 climate and renewable energy goals could result in savings of €60 billion in oil and gas imports by 2020¹, the paper also recognises that the EU energy system would need “billions of Euros of investments”, so the cost of achieving a new energy supply, including climate change targets, will be significant, and will pose a serious burden on EU industry and through industry to wider society, even if realized in the most cost efficient manner. These economics must be carefully weighed against the increasing opportunities from growing supplies of relatively cheap gas and potential clean coal. Cost consciousness and effectiveness are of crucial importance in the development of the strategy, and essential in times of economic downturn.

¹ This amount has to be compared with *SEC 650/2 imports bills*

2.2 Energy efficiency is the first source of “new” energy

Energy efficiency and conservation are the most immediate and cost-effective sources of “new” energy, with no greenhouse gas emissions. We subscribe to the slogan “*energy saved is energy found*”. The European refining industry has consistently reduced the energy intensity of its operations and remains committed to further efficiency improvements under ETS, even if legislative and market demands for cleaner fuels and more diesel potentially increase refining processing intensity, energy and emissions. Whilst we are convinced that efforts must be pursued in all sectors of the economy from manufacturing to transportation and construction, the scope for further improvements is also very significant in households. In this regard, the Commission’s stock taking document rightly identifies public awareness-raising and acceptance as areas that have been underestimated for their impact on delivering energy policy. We believe this is particularly relevant in the area of energy efficiency, where individual behaviour and decisions are crucial in minimizing energy use and carbon footprints.

Through the “*savemorethanfuel*” campaign, EUROPIA has sought to play its part in encouraging our customers to use their road fuels more efficiently by sharing with them a few easy tips that have sizeable impacts on their vehicle’s fuel consumption. Similar collaborative initiatives between the policymaker and industry have the potential to make a real difference in raising energy-consciousness among consumers. As part of this drive, it is also essential that manufacturers provide clear communication on the energy performance of appliances and vehicles, to enable consumers to make an energy-conscious purchase decision.

2.3 Reliable and secure energy supplies are vital

For as long as demand for products from crude oil continues, there are significant security of supply benefits from sourcing them from EU refineries. The crude oil from which such products are manufactured is an openly traded global commodity. If supply from a specific source is disrupted, crude is sourced from elsewhere with limited impacts on the consumer. Reliance on imports of refined oil products from a few large scale refineries outside the EU would expose consumers and industrial customers to a much greater risk of disruption and greater price volatility in the event that supplies to the EU from those refineries are disrupted for technical, political or economic reasons. Additionally, the production of many other products, including petrochemicals, plastics, pharmaceuticals, constructions materials and lubricants, is tied to local refining. If refining leaves Europe, these industries are likely to follow.

We encourage the Europe 2020 Strategy and the initiatives for 2050 to take into account the reality of this continued need for refined oil products and to avoid creating, perhaps inadvertently, the conditions for a continuing disengagement by current operators of refining in the EU.

The EU refining sector should not be pushed into an irreversible decline because this will leave an increasing portion of EU refined products to be met by imports.

2.4 The EU Refining Industry contributes to EU mobility and economic value

A policy framework that will safeguard the economic viability of industry, including European refining, is of the utmost importance to security of energy supply and EU competitiveness. This must consider EU climate change objectives and the stock taking document’s reference to the EU raising its ambitions to -30% GHGs in 2020, “*if the conditions at international level are right*”.

Following the signing of the Copenhagen Accord (CA) in December 2009, EUROPIA hopes that other industrial nations will use all the means at their disposal to take action on climate change now, although it is clear that the CA does not deliver the global binding agreement that would introduce more widely a cost of carbon and balance competitive pressures between the EU and other regions.

The European refining industry operates between two global, open and transparent markets: the market of crude oil, and the market of refined products. The high number of operators and the transparent markets for crude and products create a highly competitive environment for these activities.

Refineries located in other neighbouring regions, some of whom benefit from subsidies and favourable tax regimes, compete with EU based refineries both to supply the EU domestic market and, crucially, in competitive export markets. The EU refining sector should not be pushed into an irreversible decline because this will leave an increasing portion of EU refined products to be met by imports. This will impair the economics of supply to the EU and the competitiveness of its industry relative to other parts of the world and reduce the significant economic benefits of a domestic refining sector.

Furthermore, ever increasing EU specific regulatory compliance costs that are not mirrored elsewhere frequently exacerbate this situation. The EU must ensure that legislation and policies affecting refining and energy issues in general adopt a balanced and coherent approach, taking into account the triple objectives of ensuring Europe's competitiveness, sustainability and security of supply, whilst avoiding conflicting regulation.

The EU should develop a framework and policies that factor in the above objectives.

We would suggest the following considerations during policy development.

2.5 Policies should be predictable and coherent

The European Refining Industry needs a coherent and realistic framework of policies and regulation in order to plan any investments which might prove necessary to adapt to the increasing decarbonisation and to major shifts in demand for oil products.

Legislative proposals should be based on comprehensive and rigorous impact assessments and should avoid contradiction and duplication; legislation should have a sound scientific basis, clearly established objectives and be proportionate to those objectives.

Climate and energy policies have seen a rapid succession of legislative acts and political discussions, most notably with respect to the EU's commitments to overall greenhouse gas reductions, energy efficiency and the market share of renewable energy sources: the Emissions Trading Directive; the taxation of energy; the Renewable Energy Directive (RED) and the Fuel Quality Directive (FQD); Carbon Capture and Storage (CCS); and the requirements for liquid fuels. The continued rapid development of new initiatives and policies before the full implementation of existing ones in all Member States creates uncertainty over future energy and climate policies. This uncertainty is damaging to investor confidence and constrains new investment in energy projects, whichever energy source they concern.

2.6 Climate change is a global challenge: energy and climate policy must avoid undermining EU competitiveness

The stock taking document underscores the crucial interdependence of energy policy and climate change, a conclusion that we share and for which we offer our full support to the policymaker in formulating a forward-looking energy policy framework.

Policy imperatives, whilst factoring in the agreed objective of reducing greenhouse gas emissions by 20% in 2020, must aim to balance the gradual move towards a low-carbon energy system with the right environment to ensure continued reliable supply of the fuels needed to sustain Europe's economy today and into the future. The recognition that energy, like climate change, is a global issue and that interdependence characterizes the global energy landscape, is strongly supported. Europe's refining sector must be viewed in this context and its exposure to international competition recognized. Legislation should be considered within such an international, competitive context.

2.7 Policies should be technology neutral, including in transport

EUROPIA shares the concerns about GHG emissions from transport and acknowledges the need to take action to reduce these emissions and improve the overall transport system efficiency.

This may be a mixture of regulation and market based actions. For example, EU Passenger car CO₂ regulation has been highly effective at driving a fast rate of improvement in passenger car efficiency leading to a similar rate of improvement in CO₂ emissions

EUROPIA considers that transport policies should be performance driven and technology neutral, thereby enabling the market to select the lowest cost options for meeting a particularly policy goal. Newly favoured technologies and energy sources should not be unfairly subsidised.

As the main supplier of transportation fuels in the EU, the refining industry plays an essential role in facilitating European citizens' and goods' mobility. A healthy and competitive refining industry is needed to keep bringing this key contribution to economic and social welfare.

To ensure that technology choices are made on a neutral basis, the external costs of all energy choices must be included in the equation; to the real energy value of a product should be added such costs as the impact of GHG emissions, the costs of ensuring secure supplies, such as energy storage, and the true infrastructure costs.

A number of specific comments should also be considered in evaluating transport fuels alternatives.

Firstly, the evaluation of energies must be based upon the "Well-to-Wheel" (WtW) CO₂ emissions for all transportation modes. Energy efficiency improvements may offer the most cost efficient opportunities to reduce WtW emissions. Modest purchase cost increases are likely to be recouped in fuels savings within the life of the vehicle. Some EU refiners and car manufacturers have established long term partnerships to jointly develop new technologies aimed at improving the efficiency of the fuel/engine combination.

Secondly, blending of cost effective, truly sustainable low carbon fuels using the existing infrastructure also offers additional CO₂ reduction options.

Thirdly, the full cost of infrastructure investments, sourcing perhaps rare new battery material and any feed in tariffs must be included when looking at fuel cell or electric vehicles, as must the security of supply implications of dependence upon a few sources of such rare materials.

And fourthly, taxation policies should treat energy products on their true merits. EUROPIA agrees with the observation that “Europe relies increasingly on imports of diesel in order to balance the demand patterns on the European fuel market”. Tax incentives and structural trends in transport are fuelling this growing mismatch between refinery production and demand.

Spurred on by favourable excise taxes on diesel, the shift to diesel from gasoline began 20 years ago and has contributed to excess gasoline production capacity and a shortage of diesel production in the EU despite refiners’ efforts at boosting diesel yields. Eliminating the tax bias in favour of diesel would help redress the imbalance in demand, in particular for light duty vehicles.

EUROPIA believes that energy taxation levels for all energy products (oil, coal, gas, biomass, electricity) within a given use (private transport, commercial transport, housing, and industry) should be directly proportional to the energy content of the different energy products.

Furthermore, if a CO₂ component is to be included as part of the taxation of energy products, then it should be based upon the CO₂ emitted when the product is consumed. The EU ETS market should set the prices for CO₂ and any taxation element should be consistent with this over a reasonable period. This will ensure a level playing field in a specific industrial sector between those installations within and outside the scope of the ETS. Energy and CO₂ taxation must not create an overlap or double burden with other instruments such as the ETS.

2.8 Policy options: a balance between market based instruments and regulation

Whilst acknowledging the purpose, and in specific, limited cases the effectiveness of certain non-market based measures, EUROPIA calls for their cautious application, and for an appropriate balance between the two principal policy approaches. Policy instruments must support the overall objectives outlined above and aim to do at the lowest cost to society.

EUROPIA supports, for example, the EU ETS as such a cost effective market based means to encourage emissions reduction, whilst including measures to mitigate potential risks to EU competitiveness. Direct regulation may be effective in certain circumstances but could carry the implication of technological or sub optimal economic choices by the legislator, and therefore needs extremely careful consideration.



In conclusion,

EUROPIA welcomes the opportunity to contribute to the development of the 2011-2020 Energy Strategy. We applaud the Commission for taking a longer-term view of energy policy and inviting debate on the approach and actions envisaged to deliver the policy goals. We recognise that the EU is at a crossroads and must now make important decisions regarding its future. It is essential, however, to take decisions on the right basis as these will have long lasting implications, many very costly. Poor choices today may close down paths to the most appropriate solutions. Clear direction but no-regret policies should pave the way forward. Oil will still account for more than a third of energy demand by 2030, and oil refining is an essential element of a reliable and secure supply chain to the customer. The EU refining industry is therefore a key part of the path forward and EUROPIA looks forward to cooperating actively with the European Institutions to this important debate for the EU future.

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