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Fuel Quality Directive: Defining the methodology to meet environmental targets while not jeopardizing the **competitiveness of the EU refining industry**

EEF - 17 April 2012

Agenda

- EU refining: an industry under severe pressure facing competitive pressures unique to the EU

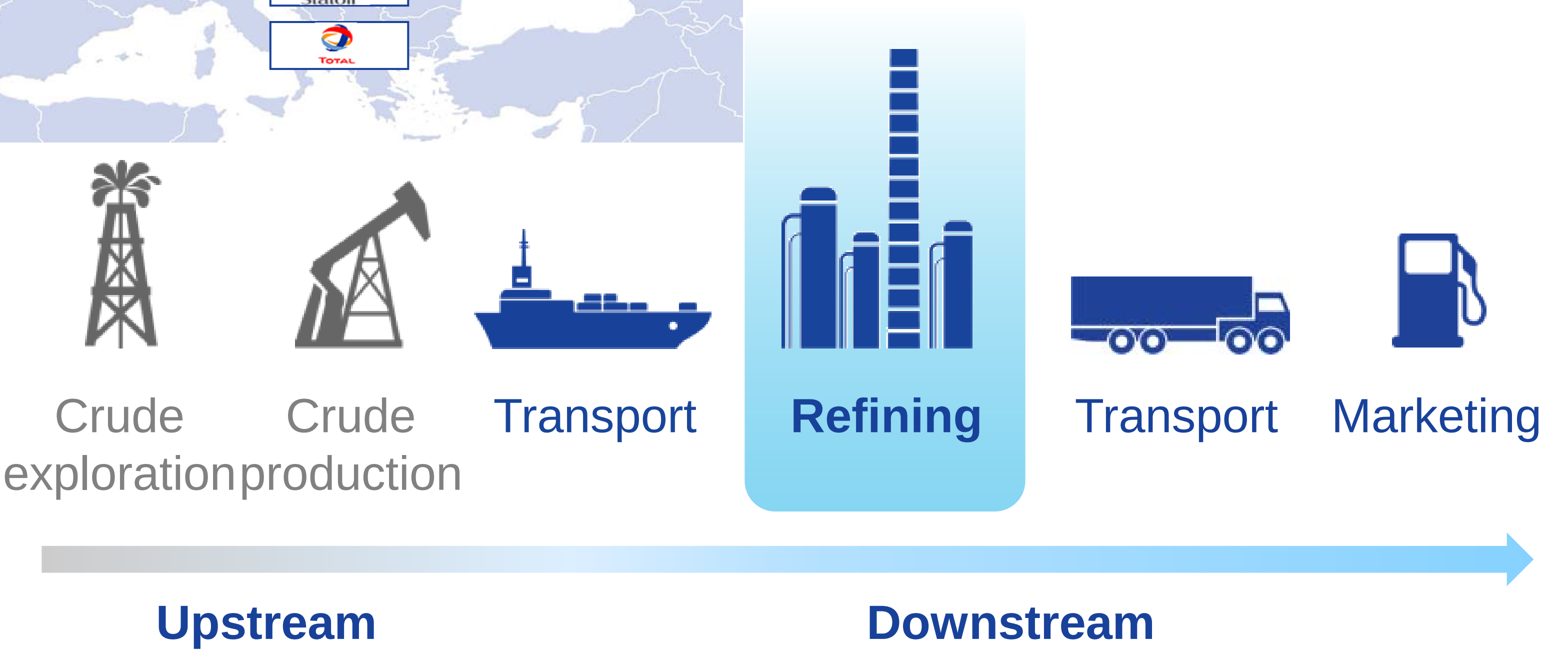
- How can the FQD Article 7A be implemented to achieve its aims

and

minimise the competitive impacts on the EU

Oil Products supply business segments: EUROPIA represents EU Downstream and 80% of EU Refining capacity

Refining is a separate business from upstream and marketing and is in global competition



The EU refining industry faces three main challenges to remain globally competitive

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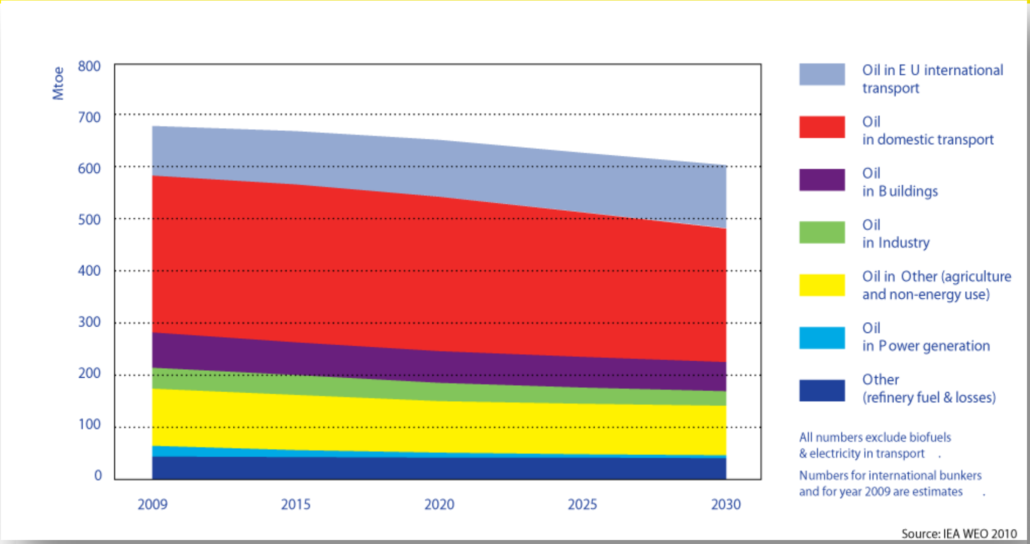
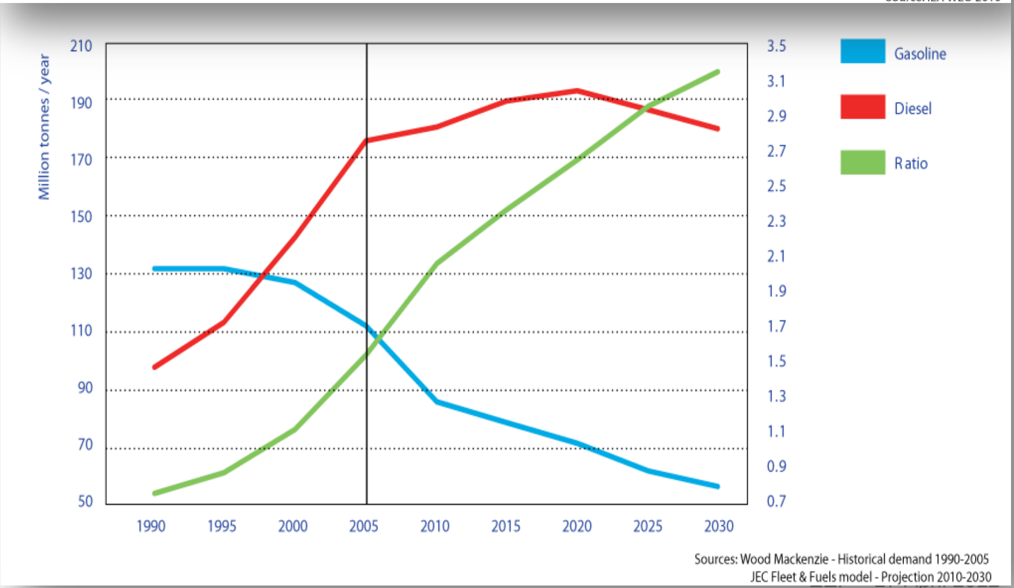
1. **A 10-15% drop in the demand for oil products by 2030** compared to 2009 will require the EU refining industry to adapt.
2. **The growing mismatch, pushed by taxation, between gasoline/diesel demand** and EU refinery production: major gasoline exports/diesel imports

   And
3. **Increasing EU only legislative burden** damaging competitiveness with other regions in the international market (ETS, IED, REN, EED, FQD,………)





EU Refining is a strategic asset for the EU: it contributes significantly to EU competitiveness and security of supply

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A robust **domestic Refining industry underpins growth and competitiveness in the EU.**
- Facilitating the mobility of EU citizens and goods therefore playing an important role in EU growth
- Secure product supplies to industry and consumers

Continually innovating and introducing new technologies in its operations and products, **Investing** on average **€5 billion/year** in Refining, R&D, transport and distribution

Setting worldwide standards for fuels and engines with the automotive industry.

The EU Refining Industry is a **major provider of highly skilled jobs** and scientific and engineering expertise.
Providing **employment** for **100.000** people in refineries and **500.000** in marketing and logistics, and **778.000** in the petrochemical sector which represents €241 billion in annual sales.

Major contributor to EU and MS economy and revenues :

€30 billion/year value added

€240 billion/year duties and taxes collected by the EU oil downstream

And the competitive pressure is having an effect - EU Refining Industry is evolving significantly

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- Out of 98 EU refineries operating in 2009:
  - **5 have shutdown**: UK, France, Germany, Italy and Romania.
  - **13 have changed ownership**: UK, France, Germany, Netherlands, Sweden and Spain.
  - **3 more are for sale without buyers**: UK and France.
  - **Petroplus bankruptcy** results in **5 additional refineries under threat** (2.500 + direct jobs, loss of diesel production).
    - **>25% of EU refineries in 2 years.**
- “Traditional” ownership of Refining is changing:
  - **Withdrawal of majors**: BP, Shell, ConocoPhillips, Chevron, ExxonMobil and Total have sold or shutdown capacity in EU in past 5 years.
  - **New ownership with different business models**: ESSAR (India conglomerate); PETROCHINA (largest oil/gas producer in China); Rosneft/Lukoil (Russian oil “majors”); Valero + Petroplus (independent refiners); ST1/ Klesch (small companies).
- “Integrated” oil companies are detaching refining from upstream into new downstream only companies: ConocoPhillips and Marathon (similar model to Valero and Petroplus):
  - Will potentially change resources and financial strength of industry.

It is this Competitive context that EUROPIA is concerned about the Commission proposals on FQD 7A

What's Art. 7a of the Fuel Quality Directive about ?

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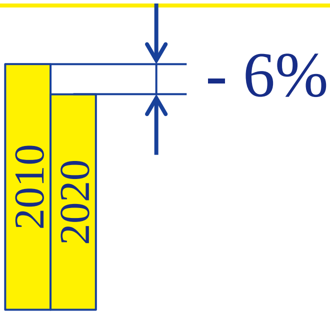


- It requires fuel suppliers to reduce by 6% vs. 2010 the GHG intensity of the transport fuels used in EU by 2020.
- It is intended to leave to the fuel supplier the choice of the most cost effective way to achieve the target:

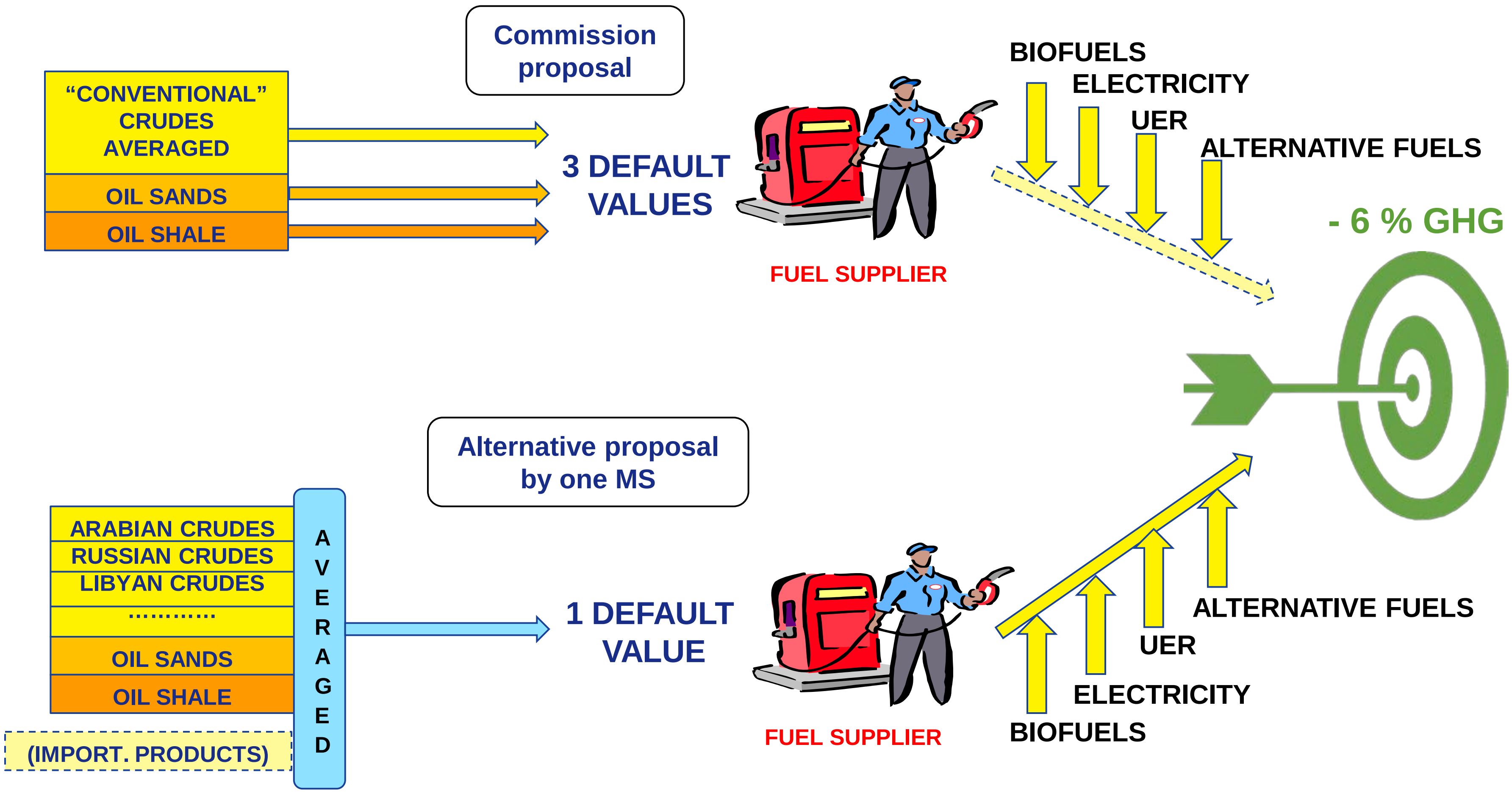
  "[…] through the use of biofuels, alternative fuels and reductions in flaring and venting at production sites" (1)

- It addresses the fuel suppliers, i.e. the last step in the supply chain that ranges from upstream operations (crude production) to the sale of the fuels on the market.

It is not designed to and cannot control the upstream business: if used as a tool to this aim, it creates distortions to the market and adverse economic consequences

(1) Recital 9 of Fuel Quality Directive (2009/30/EC of 23 April 2009)

Fossil Fuels Default Values



Commission draft Directive: separate values for crudes, “natural bitumen”, oil shale

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- It mainly aims at discouraging the use of one high GHG feedstock (natural bitumen = oil sands) by assigning a high default value to the fuels produced out of them.

- EUROPIA´s view:
  - a) It is counterproductive in reducing global upstream GHG emissions
  - b) It imposes a disproportionate administrative burden to MS
  - c) It decreases EU security of supply
  - d) It impairs EU refining industry competitiveness
  - e) It makes EU liable of trade discrimination

  And it has the potential to lead to a crude-by-crude default value, magnifying the above criticalities.

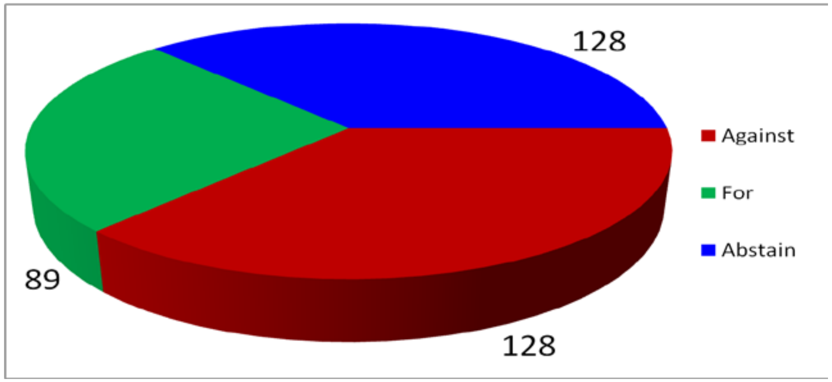
- EUROPIA proposal: <u>one default value,</u> to be <u>periodically reviewed</u> based on the most recent actual data on the EU feedstock slate

Outcome of the Fuel Quality Expert Group of February 23, 2012

- The Commission proposal was put to the vote of the Fuel Quality Expert Group and the result was no opinion

15 MS representing 85 % of the EU population did not support the Commission's proposal. (256 votes)

- An alternative compromise proposal presented by one MS, average GHG default value calculated at European level, was not put to the vote.



Commission is still expected to submit their proposal (possibly amended) to Council and Parliament

COMM proposal is counterproductive in reducing global upstream GHG emissions

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Q: Will a higher default value for oil sands derived fuels contribute in reducing global GHG emissions ?

A: No. Oil sands will simply be reallocated to other (non EU) markets where no penalty is imposed, with higher CO2 emission from longer shipping routes

Q: Why are average default values (as in one MS proposal) more effective ?

A: They allow EU to achieve the FQD target of -6% in GHG intensity lowering total crude oil input, without causing shuffling of oil sands. If more high GHG feedstocks are imported to EU, more biofuels, electricity, upstream emission reductions alternative fuels must be used to achieve the - 6% target

Moreover, many EU refineries could become uneconomic. EU would heavily depend on imports to satisfy its fossil fuels demand. These products will mostly come from countries where environmental legislation and control systems are not as advanced as in EU

Without separate default value, what happens if more oil sands are used ?

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Increased utilization of oil sands (or of any high GHG feedstocks) will increase the average default value, calling ALL FUEL SUPPLIERS in EU to use more biofuels, electricity, UER, alternative fuels to meet the – 6% target.

This way, the purpose to control and compensate for the high GHG feedstocks will be met, without unintended consequences.

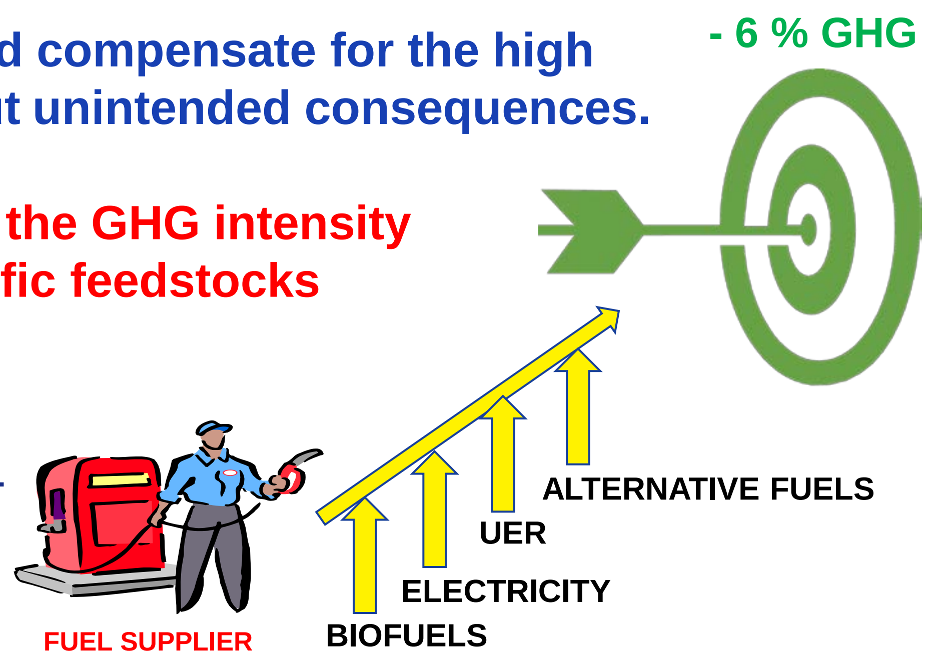
Art. 7a of the FQD is about meeting the GHG intensity target, not about banning any specific feedstocks

ARABIAN CRUDES
RUSSIAN CRUDES
LIBYAN CRUDES
…………
OIL SANDS
OIL SHALE
(IMPORT. PRODUCTS)

AVERAGED

Alternative proposal by one MS

1 DEFAULT VALUE



Conclusion

	3 separate default values (COMM proposal)	Single EU average default value
Global GHG savings	**NO** **Crude shuffling, CO2 leakage**	**YES** **- 6% EU, no change RoW**
Administrative burden	⊖⊖⊖	⊕ **Minimal**
Opportunity for fraud	⊖⊖	⊕ **Minimal**
EU security of supply	⊖	⊕ **Minimal**
Impact on EU refining	⊖⊖⊖	⊕ **Minimal**
Trade Restriction	⊖⊖⊖	⊕ **None**

EUROPIA recommends that the Commission proposal is revised as a compromise solution: one default value to be periodically updated

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Thank you for your attention