



EUROPIA proposal for the implementation of the Article 7a of the Fuel Quality Directive

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Introduction

Article 7a of the Fuel Quality Directive (FQD) requires fuel suppliers to reduce by 6% in 2020 vs. 2010 the greenhouse gas (GHG) intensity of the road fuels (and non-road mobile machinery) used in the EU. It is intended to leave to the fuel supplier the choice of the most cost effective way to achieve the target: utilisation of biofuels, credits from electric vehicles, upstream emission reduction, or the use of alternative fuels.

Fuel suppliers are required to annually report the volume, country of origin and type of the feedstocks, and GHG content of every kind of fuel they have placed on the market. Member States are required to check these reports (burden of verification). The obligated party is the fuel suppliers, i.e. the last step in the supply chain which ranges from upstream operations (crude production) to the sale of the fuels on the market.

The choice of the methodology to implement Art.7a of the FQD is not a trivial one. It will determine the possibility to correctly achieve the scope of the Directive. It will determine the compliance burden for fuel suppliers and Member States. And, if not appropriately designed, it will cause undesired and potentially very serious consequences for the EU fuel supply industry, for the EU economy and its security of supply.

The debate on the definition of the methodology has been going on since July 2009. EUROPIA – the voice of the EU refining industry - has participated to the debate sharing its views and making concrete proposals to the EU Commission, to Member States, to Members of the EU Parliament and to other stakeholders.

EUROPIA Proposal

The key concept of the EUROPIA's proposal is linear and simple: the GHG content of every fossil fuel sold at the pump can be characterized as a **fixed default value calculated as an EU average**. In other terms, taking the average fossil feedstock diet fed to the EU refineries in a determined period of time, the average GHG content of gasoline and diesel sold in EU can be calculated. Likewise, the country of origin of the fossil fuel feedstocks can be calculated as an EU average, using publicly available data (EUROSTAT).

Conversely, in addition to creating a strong competitive disadvantage for EU refining and being ineffective at reducing GHG emissions, linking the fuel's GHG intensity to the feedstock of origin implies the need to track back the specific source of any fossil fuel sold on EU. This can only prove inaccurate, due to extreme complexity of the fossil fuel production chain (in no way comparable to the biofuels' one), as explained in Appendix 3: "Why tracking back the fuel origin can't work" of **EUROPIA Reporting Proposal**.

The **EU average fixed GHG default value** for gasoline and diesel proposed by EUROPIA, in order to accurately reflect the evolution of the feedstock diet, needs to be periodically updated. This can be done by an independent scientific body, who will take the most updated and reliable information at the most appropriate level of detail on the crude feedstocks (upstream GHG content, volumes processed in EU, possibly also the volumes used to produce fuels imported in EU), and calculate the updated GHG default values.



The benefits of this proposed methodology are straightforward:

- A simple, transparent, verifiable and fair reporting system, with minimal burden for both the fuel suppliers and the Member States (see **EUROPIA Reporting Proposal**).
- An effective and accurate characterization of the GHG intensity of the average gasoline and diesel sold in Europe, allowing fuel suppliers to take the appropriate measures (use of more bio and alternative fuels, electricity, upstream emission reduction) to comply with the GHG intensity reduction target.
- With respect to other methodologies, this proposal will allow the obligated party to strive to achieve the declared objectives of Art.7a of the FQD at comparatively lowest cost/risk to the refining sector and EU economy.

The EU Commission Proposal (last issue: February 2012)

The Commission proposal assigns separate default values to gasoline and diesel produced from 3 different classes of refinery fossil feedstock: “Conventional Crudes”, “Natural Bitumen” (i.e. Oil Sands and unconventional crudes) and “Oil shale”.

EUROPIA strongly opposes this approach, for the many and severe detrimental consequences, as detailed in a study performed by **Wood Mackenzie**:

- It will not contribute to reducing global GHG emissions: the feedstocks labeled as “high GHG” will not stay in the ground and will be reallocated to other (non EU) markets. Moreover, the high GHG fuels produced in the EU will be reshuffled (exchanging them with low GHG fuels) to non EU countries, again with no benefit for the global environment. The net effect of the longer transport routes to reshuffle feedstocks and fuels will result in a global CO2 emission increase, quantified by **Wood Mackenzie** in about 1.4 Million tonnes of CO2/year.
- It will require the creation of a chain of custody to track back the feedstock (and intermediates, and components) of origin of any fuel sold in the EU market. As explained in the **Wood Mackenzie study** and in the **EUROPIA Reporting Proposal**, the reporting will be inaccurate and practically impossible to verify, opening the door to misrepresentation and fraud. It will create a disproportionate administrative burden – in terms of complexity - for the Member States and fuel suppliers.
- The economic sustainability of the EU refining industry will be seriously damaged, as a result of the following effects (see the **Wood Mackenzie study** for details):
 - Distortion in the crude market, resulting in an increase in the cost of feedstocks for EU refiners. A premium will have to be paid to attract low GHG crudes, while the high GHG crudes currently imported to the EU will be discounted and diverted away to other markets. The net result will be a competitive disadvantage for EU refiners vs. the non EU operators.
 - As a consequence of point a), the EU refiners’ ability to compete with low cost imports of fuels from Middle East, India, EU, Canada and Latin America will be diminished. Also, the ability of EU refiners to compete for exporting surplus will be hindered.
 - This will lead to lower activity rates of the EU refineries, dealing a further blow to their economic sustainability and leading to potential closures.



- The EU economy will be negatively affected for the following reasons:
 - The impact of the closure of a EU refinery is very significant both in terms of employment (average loss of about 4500 jobs between direct, indirect and induced jobs), and in terms of GDP loss, estimated in average equal to about 2.2 billion \$. (See the **Wood Mackenzie study**). The negative impact can be particularly serious at regional level, especially in weaker economic areas where a local refinery plays a key role.
 - The EU petrochemical industry, whose production sites are mostly closely integrated with refinery sites, will also be heavily affected by the refineries potential closure.
 - The weakening of the domestic refining industry will mean a heavier dependence on imported products: not only automotive fuels, but also petrochemical feedstocks, jet fuels, bitumen, lubricants, etc. The EU security of supply will consequently be endangered, and its negotiating power diminished, ultimately resulting in higher energy costs.
 - The trade relationships with important trading partners will be strained, since the differentiation in GHG intensity of crude feedstocks imposed by the EU may be considered arbitrary and legally challengeable. This may also lead to retaliatory measures against the EU industry.
 - Finally, the EU would in fact cut out its access to unconventional fossil resources, whose role is gaining increasingly importance in reshaping the world energy map. It should be noted that some unconventional fossil reserves are located in Europe, and may represent an important resource both in economic and in security of supply terms. As a significant reference, the US shale gas “revolution” is already providing the American industry with an important competitive advantage, and the “tight oil” is an unconventional resource the US are keen to exploit.

For the above reasons, EUROPIA believes that an Art.7a implementation methodology based on any crudes differentiation (from the 3 categories as in the last Commission proposal, to the extreme of the crude-by-crude differentiation) is better avoided, since it does not provide an incentive for global GHG emission reduction and it will cause undesired and grave consequences on the EU refining industry and on the EU economy.



Frequently Asked Questions

As a result of the many meetings EUROPIA has had with stakeholders to explain its proposal for a methodology, we have collected a list of “frequently asked questions”, with the relevant answers.

- I. *With the adoption of the EU average GHG default value for gasoline and diesel, as proposed by EUROPIA, where is the incentive for the individual fuel supplier to move away from the use of oil sands or other high GHG crudes?***

As it was originally intended, Art.7a of the FQD is not about preventing any crude feedstock being used in EU, but about reducing by 6% the GHG content of the fuels sold in EU, leaving to the fuel supplier the choice to adopt to most economically sensible measures (use of biofuels, use of alternative fuels, etc.). Trying to use Art.7a, which focuses on the fuels placed on the market, as a tool to regulate the global upstream crude production system can only result in distortions and be ineffective. With EUROPIA proposal the possible impact of a growing share of high GHG crudes will not at all be neglected. It will be reflected in the periodically updated average GHG default value, causing a higher utilisation of biofuels and other compensating measures for all fuel suppliers.

- II. *If oil sands are today a negligible component of the EU crude diet, how could the GHG differentiation cause significant damage to the EU and its refining industry?***

The introduction of the principle of assigning a different default value to a fuel based on the feedstock of origin requires in itself the implementation of a tracking system and causes distortion to the crude market. The adverse consequences on the administrative burden for Member States and fuel suppliers and on the EU economy will start immediately. The security of supply will also be negatively impacted by the restricted access to crude feedstocks. The severity of these impacts will be magnified in step with the extension of the differentiation to more and more crude categories (oil sands, tar sands, oil shales, extra heavy crudes). The Impact Assessment currently being performed by the Commission already classifies the Venezuelan “natural bitumen” in the same category of Canadian oil sands, anticipating a trend to expand the differentiation of crudes.

The question could also be reversed: if oil sands are negligible today, what is the benefit of imposing a burdensome regulation on fuel suppliers and Member States? If this is done for abstract principle reasons, the price to pay is not worth it.

- III. *The chain of custody for biofuels work: why should it be more challenging for fossil fuels?***

The degree of complexity of the fossil fuels production chain is much higher than for biofuels, from the crude extraction, through the crude transport to refineries, to the refining processing and blending of finished products, to the transport of finished products down to the selling point in individual petrol stations. It should be noted also that biofuels are mandated in the EU and priced at a premium, therefore the biofuels suppliers are motivated in certifying their origin. The same cannot be said for fossil fuels, for which no premium exists in the EU vs. the global market, hence the chain of custody, besides being of little reliability and verifiability, will result in a cost increase.



IV. Emissions from crude production should not be ignored. Shouldn't oil sands and flaring be considered?

Upstream emissions vary between 1 and 4% of the total emissions; 85% of emissions from crude are produced by the vehicle. Oil producers have taken significant and effective steps to reduce emissions during production through initiatives such as the World Bank GGFR project, working collaboratively with Producing Countries. This is much more effective than the EU trying to legislate unilaterally to control upstream production when it only represents about 15% of a global market. If the EU truly wants to control global emissions it should expend its efforts on developing further such more fruitful initiatives.

Glossary

Term	Description
Obligated party:	Refers to a party which is legally responsible for a defined duty
Feedstock diet:	Term used to describe an amount of raw material fed into a process for conversion. In this particular instance it refers to amount of the crude oil fed to the refining process.
Natural bitumen:	A type of non-conventional crude. Natural bitumen, also known as 'oil sands', is a term that refers to sands impregnated with bitumen (tar), a very high-density and high-viscosity hydrocarbon. Bitumen, in its natural state, cannot flow from a well.
Oil shale:	A type of non-conventional crude. This type of oil is produced directly from the mother rock (oil shale, rich in organic matter).
Chain of custody:	Chain of custody is a legal term that refers to the ability to guarantee the identity and integrity of the sample or data from collection through reporting of the test results.
Tight oil:	A type of non-conventional crude. The term refers to the oil found in low-permeability and low-porosity reservoirs.

EUROPIA represents the European Refining and Marketing Industry, the downstream sector of Europe's oil industry.

EUROPIA is an organisation whose 42 members account for almost 100% of EU petroleum refining capacity and some 75% of EU motor fuel retail sales.

EUROPIA as a leading Industry representative aims at contributing pro-actively and constructively to the development of policies to safeguard the secure and sustainable manufacturing, supply and use of petroleum products by providing competent and expert advice to the EU Institutions, Member State Governments and the wider community.

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