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## **Minutes of the Extended ISSG Meeting on the Regulatory Fitness Check for Refining Brussels; 5<sup>th</sup> February 2015**

Present: **COMMISSION SERVICES:** BARREIRO HURLE Jesus (DG ENTR); CABALLERO SANZ Francisco (DG ENTR); LUKACH Ruslan (IPTS-JRC); GIRAL-ROEBLING Anne (SG); BOLINA Joao (CLIMA); LUCA Lucian (DG TAXUD); PAVLOU Nikolas (TAXUD); HOEVE Rolf-Jan (ENV); ULVILA Ismo (CLIMA); KICIA Malgorzata (ENV);

*via audio link:* EDER Peter (IPTS-JRC); BAKHTIEVA Dyliara (IPTS-JRC); TEMURSHOEV Umed (IPTS-JRC)

**MEMBER STATES REPRESENTATIVES:** BAKER Jamie (UK); TROJA Nick (UK); ERICSON Sven-Olov (SE); GILLIQUET Christophe (BE); WOLTEMAR Richard (SK); CHARRIER Aude (FR); FRANKOWSKI Tomasz (PL);

**INDUSTRY REPRESENTATIVES:** BARTELLONI Alessandro (FUELS EUROPE); MELIA Francisca (FUELS EUROPE); NELSON Robin (CONCAWE); REID Alan (CONCAWE); VAN BOUWEL Eddy (ExxonMobil); DUMONT de CHASSART Francois Xavier (TOTAL); FLORIO Nunzia (UK Petroleum Industry Association); VERSACE Pietro (FUELS EUROPE)

**CIVIL SOCIETY ORGANIZATIONS:** BUFFET Laura (Transport & Environment)

The meeting was convened to present the last three legislation specific analysis undertaken by IPTS-JRC as technical input for the oil refining sector fitness check and provide feedback for improving these deliverables. Documents for discussion had been circulated beforehand representing the analysis of:

- Emission Trading Scheme Directive
- Fuel Quality Directive(s)
- Energy Taxation Directive

Francisco CABALLERO SANZ opened the meeting welcoming all participants. He updated the meeting on the new time-frame for the finalization of the exercise. The technical work by IPTS should be finished by the end of April / beginning of May

including an additional meeting of this extended ISSG to discuss the cumulative impacts, competitiveness impacts and conclusions documents foreseen for mid-April. Following this the Commission based on the finalized technical reports would develop the SWD that finalizes the process; this should be ready by early June. He also highlighted that the analysis will show the impacts of the legislation in specific time period and that the conclusions should not be used to forecast when legislation is changed or economic circumstances vary.

FUELS EUROPE asked how this new time table would incorporate the work related to the qualitative assessment of upcoming changes of legislation. Francisco CABALLERO SANZ mentioned that this will be incorporated as a separate chapter on future impacts clearly stating that the analysis is different from the main work of the fitness check. TRANSPORT AND ENVIRONMENT and DG ENV mentioned that the fitness check is a backward looking exercise and that upcoming legislation is out of the scope. Francisco CABALLER SANZ reminded that the impacts measured are those of existing legislation during a specific time-frame but that responding to the REFIT mandate upcoming changes need to be taken into account too.

Anne GIRAL-ROEBLING reminded the group of the nature of the legislation specific analysis, highlighting the fact that they need to look into the impacts on the sector but also into whether the legislation is meeting its broader objectives. She also made clear the separation between the two strands of work (IPTS technical documents and Commission SWD) and the role of the external and internal consultation for each of them.

Ruslan LUKACH presented the analysis of the three pieces of legislation (presentation attached) and discussion with ISSG members followed. Main topics discussed included:

## **I. Emissions Trading Scheme Directive**

Need to take into account the real prices and liquidity of the market for emissions when estimating the benefits the sector obtained from over-allocation.

Need to look further into the distribution of over and under allocated refineries and whether the situation changes if some of the outliers (either over or under allocated) are removed.

Need to fine-tune conclusions on the issue of cost pass-through.

TRANSPORT AND ENVIRONMENT requested that rather focusing on limited costs the wording should mention benefits as the sector has been over allocated. DG ENV also highlighted this issue and additionally requested a clarification on the nature of the costs in the period in question (investments, operating costs)

FUELS EUROPE delivered a presentation (attached) highlighting that while the conclusions for Phases I and II can be share one cannot forget the radical change that Phase III will imply. Therefore this should be reflected in the document at some stage. They also requested a more careful discussion of the cost pass-through and welcome the fact that opportunity cost had been down toned in the document.

CONCAWE commented on the graph shown by JRC that it would be relatively easy for JRC to check on the impact that changes in activities of refineries may

have had on the balance of emissions relative to allowances, which could explain the relatively low number of refineries where the allowances clearly exceeded the emissions.

DG CLIMA reminded the group that the main focus should be Phases I and II and agreed to provide comments in writing in order to give a better picture of what Phase III implies as the shift from over to under allocation is the result of changes in the perimeter as well.

The POLISH representative highlighted that it would be useful to perform calculations of emission factor for particular processes (catalytic cracking, hydrocracking) and subsequently to point out what changes have been introduced by EU refineries and what was the cost. Moreover, the need for more in-depth analysis of energy intensity of refineries should be made.

DG GROW and IPTS will revise the document and include a separate section for Phase III either as part of this chapter or in a separate chapter that considers the upcoming changes in legislation.

## **II. Fuel Quality Directive**

TRANSPORT AND ENVIRONMENT asked whether the IPTS was assuming that all investments taken into account had been driven only by legislation, because some investments might have been driven by other considerations. IPTS confirmed that this understanding was correct.

FUELS EUROPE highlighted the inconsistency of the treatment of costs and benefits. They are not comparable in terms of accuracy (observed costs versus estimated benefits) and claims that they are out of the scope of the fitness check. Francisco CABALLERO SANZ clarified that while being part of the fitness check mandate, they were not considered as benefits for the industry and as such not taken into account in the competitiveness analysis.

The POLISH representative stressed that the analysis should refer to a greater extent to the conditions of operation of the refineries, that the costs should be compared to non-EU regions with respect to environmental quality issues. Moreover, he mentioned that it would be advisable to examine all consequences for refineries resulting from adoption of regulations aiming at fuel quality standards improvements, like those that led to higher electricity consumption and in effect resulted in higher CO<sub>2</sub> emissions.

FUELS EUROPE asked where would the comparison with other world regions be discussed and requested that comparison of investment intensity (EU vs. other regions) should be done per ton of sulphur removed rather than per ton of throughput.

Francisco CABALLERO SANZ mentioned that the comparison with other world regions will be discussed in more detail in the competitiveness analysis.

## **III. Energy Taxation Directive**

TRANSPORT AND ENVIRONMENT asked whether exemptions for some uses (i.e. commercial trucks, agricultural machinery) had been considered. DG TAXUD mentioned that the exemptions apply from some Member States to the use of diesel from commercial trucks are above the EU minimum rates so for the purposes of the study it should not be an issue. IPTS explained that due to the assumptions considered (i.e. no exemptions, full cost pass-through of taxes and demand elasticities) the estimates for this directive are an upper bound of the potential impact.

DG ENV requested that a more precise cost-benefit analysis was included in the exercise.

FUELS EUROPE requested a more detailed analysis of whether harmonization was actually happening, suggested that the methodology for the demand impacts should be better clarified and that the impact of dieselization should be more prominent in the document. IPTS mentioned that there are several measurements of harmonization (not only tax levels) already in the document.

The POLISH representative mentioned that it seems there is no correlation between increase in gasoline and diesel oil prices and decrease in consumption of these fuels at the EU Level, asked for the impact on jet fuels and whether the energy taxation had had any impact in the diversification of supply of different types of raw crudes. DG TAXUD mentioned that jet fuels used in air navigation (other than in private pleasure flying) are mandatory exempted in the energy taxation directive.

Francisco CABALLERO SANZ closed the meeting thanking everyone for their comments and looked forward for the final round of discussions once the last three documents are finalized.

#### **NEXT STEPS**

- Stakeholders invited to submit written comments by 9<sup>th</sup> of February
- Revised documents will be circulated on 20<sup>th</sup> February; bilateral meeting with stakeholders to clarify final areas of disagreement can be scheduled if needed.
- Final meeting to discuss the cumulative and competitiveness impacts and conclusions will be held in late April

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