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ENTERPRISE AND INDUSTRY DIRECTORATE-GENERAL

Enterprise Competitiveness, Industry and Growth Policies  
**Industrial Competitiveness for Growth**

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ENTR A/A4

## **Minutes of the Extended ISSG Meeting on the Regulatory Fitness Check for Refining Brussels; 21<sup>st</sup> November 2014**

Present: **COMMISSION SERVICES:** BARREIRO HURLE Jesus (DG ENTR); KIVISOO Kasper (DG ENTR); KRANJC Tanja (DG ENTR); CABALLERO SANZ Francisco (DG ENTR); MARSCHINSKI Robert (IPTS-JRC); LUKACH Ruslan (IPTS-JRC); GIRAL-ROEBLING Anne (SG); MCDOWELL Malcolm (ENER); BOLINA Joao (CLIMA); DAVIES Stephen (JRC); KASTRISSIANAKIS Stratis (DG ENTR); LUCA Lucian (DG TAXUD); PILLER Sara (SG); HODGSON Ian (DG CLIMA).

**MEMBER STATES REPRESENTATIVES:** BAKER Jamie (UK); ERICSON Sven-Olov (SE); FARMER Anne-Therese (UK); FERRI Atonin (FR); FIELDS Carmel (IE); GILLIQUET Christophe (BE); JAKAB Marianna (HU); LEMARIE Yves (FR); LOPEZ PEREZ Sergio (ES); FRAC Rafal (PL); PERELLA Giovanni (IT); WOLTEMAR Richard (SK)

**INDUSTRY REPRESENTATIVES:** BARTELLONI Alessandro (FUELS EUROPE); IOANNIDIS Alexander (Fuels Europe); LOPEZ Eva (REPSOL); MELIA Francisca (FUELS EUROPE); NELSON Robin (CONCAWE); REID Alan (CONCAWE); ROBERTS Andy (UKPIA); VON BOUWEL Eddy (EXXON)

**CIVIL SOCIETY ORGANIZATIONS:** BUFFET Laura (Transport & Environment); MALINS Chris (INTERNATIONAL COUNCIL ON CLEAN TRANSPORTATION)

The meeting was convened to present the first set of results from the technical work undertaken by IPTS-JRC and provide feedback for improving these deliverables. Following the formal request by Member States in the May 2014 Refining Forum, the existing steering group has been expanded to incorporate them. A set of documents had been circulated beforehand representing the overview of the sector, the analysis of individual pieces of legislation and the results of the OURSE modelling. In particular the documents submitted for comments were:

- Refining Overview
- Renewables Energy Directive (RED)

- Directive on Clean and Energy Efficient Vehicles (DCEEV)
- Industrial Emissions Directive (IED)
- Strategic Oil Stocks Directive (SOSD)
- Marine Fuels Directive (MFD)
- Energy Efficiency Directive (EED)
- Air Quality Directive (AQD)
- Assessment of EU and global impacts by means of the OURSE model
- Document providing information on used data sources

The missing pieces (including individual legislation analysis, cumulative impact analysis, competitiveness analysis and conclusions) will be provided by JRC-IPTS as they are concluded.

Francisco CABALLERO SANZ opened the meeting welcoming all participants and highlighting the importance of this exercise. The exercise is important for industry who called for it back in 2012 but also for the Commission who want to know the fitness for purpose of several fields of legislation for specific industrial sectors. The exercise can also serve as a starting point for future evaluations of new legislation. He also mentioned why the refining sectors is a suitable candidate for this exercise as it produces a more or less homogenous products and is subject to multiple strands of legislation. He concluded mentioning the importance of stakeholder consultation in the whole process, involving different commission services, industry, civil society organizations and, from this meeting onwards, Member States.

Sara PILLER further stressed the pilot nature of this study both in terms of approach (sector) and inclusiveness (both inside and outside the Commission). It reminded that better regulation does not necessarily mean de-regulation, rather assessing if the existing one is fit for purpose or it can be made lighter, simpler and less costly. For the latter it highlighted the need to consider the benefits of legislation and whether the costs were proportional to the benefits.

IPTS-JRC presented the overall approach to the fitness check work being undertaken. It stressed its ex-post nature and the objectives of assessing the delivery of the legislation's objective, the associated costs, the impact on international markets and competitiveness. It stressed also the fact that the qualitative analysis for the post-2012 legislation is not included in this section of the Fitness Check, and that it will be dealt with separately. It reviewed the different data sources and approaches used discussing some of the key issues that the analysis won't be able to clarify, spelling out the methodological decision made to handle them.

Comments were raised regarding the need to clarify the metric being used for effectiveness and the differentiation between results obtained by in-house analysis of the data sources versus those taken from the literature. The latter should be qualified as needed. It was requested that the accuracy and the criteria for the selection of the conclusions from the literature studies should be proven. Additionally, the robustness of the literature studies should be demonstrated by the existence of peer reviews, and studies coming to different conclusions should also be used for comparison. Concerns were also raised regarding the need to take into account the overall benefits of the legislation and the way they should be assessed.

IPTS-JRC presented the overview of the refining sector during the study period (2000-2012) based on the data sources used. The overview includes the contribution of the

sector to the global EU economy, the feedstock supply mix, the complexity of refineries, the investment and operational cost trends as well as the profit margins.

Comments were raised regarding the impact of some investments not covered by the data sources, lack of consistency between the sector overview and the OURSE model results and the need to report data on actual margins and not indexed ones. In addition, it was also requested that the overview section should also tackle the security of supply situation.

IPTS-JRC presented the analysis for the three pieces of legislation analysed so far that have bigger impacts on the sector: Renewable Energy Directive, Marine Fuels Directive and Industrial Emissions Directive.

Regarding the Renewable Energy Directive comments were raised on the additional impact of biodiesel blending on the product mix due to the higher density of FAME; the limited impact on security of supply as biodiesel feedstock is also partly imported; the need to quantify the impacts of reduced throughput on costs; the consideration of biodiesel as a benefit in reducing fuel costs as they are more expensive than the fossil fuel they replace and only reach the market due to subsidies; and the robustness of the impact of lowering demand in overall global oil prices.

Regarding the Marine Fuels Directive it was mentioned that re-blending has a cost to industry in terms of logistics and thus the reduction from 4.5% to 3.5% of sulphur on marine fuels cannot be assumed to be zero just because it could be met via re-blending.

Regarding the Industrial Emissions Directive it was mentioned that the investment and operational costs analysed in the document are not the only costs of the Directive, fuel switching – an important component of the operating costs – should also be considered; that the increase in operating costs due to the IED should not be looked at only as a percentage of the total operating costs, but need also to be compared to the operating margin; that some investments have happened after 2012 (and are still ongoing) as permits were only granted in 2008 and planning takes time; that EU refiners had already undertaken some of the investments that non-EU refiners are making in the study period; that US investments might be biased as significant capacity increases were happening simultaneously; that conclusions on the competitiveness of the EU refineries vs. other regions should be made considering both on CAPEX and OPEX, and that the latter is influenced by the severity of the emission limits in different regions, which should therefore be looked at and the need to differentiate competing regions for different EU regions (i.e. West Europe versus US and East Europe versus Russia).

Last IPTS-JRC presented how the OURSE modelling results will complement the analysis. Specific results could not be presented as the model is being revisited to take into account concerns already voiced earlier, in particular (i) on the fact that the model takes oil product demand reduction as a cost saving and hence overall beneficial effect; (ii) model does not allow for fuel switching as abatement and (iii) over estimates trade.

Comments were raised regarding whether the model would be capable of assessing if the FQD has de-facto been a non-tariff trade barrier supporting EU refineries, whether it could capture also benefits of legislation and on the source of data used to feed the model.

IPTS-JRC will reflect on the comments and the additional input to be submitted by participants (see below) to revise the documents. The revised documents will be considered "final" for the process of the technical inputs into the process.

The meeting was closed with several statements by participants. The Italian representative stated that additional clarification on some of the methodological concerns raised is needed. In that sense he called for the creation of a working group to continue working on the process. This working group would focus on the integration of findings of similar exercises made at national level; assisting the qualitative assessment of "new measures" not covered in the time period considered and beef up the analysis in terms of security of supply and resilience of the EU refining sector. This request will be circulated for endorsement to MS and forwarded officially to the Commission<sup>i</sup>. The Polish representative highlighted that the cumulative impact is very important as so far the results only show small impacts, but many small impacts can become one big.

The representative of the International Council on Clean Transportation highlighted that the work so far has been very detailed on costs but not so much on effectiveness or competitiveness.

The representatives of Fuels Europe and CONCAWE stated that the focus of the work should be on quality rather than on speed to conclude it. A good fitness check late is better than a not so good fitness check in a rush.

The representative of DG ENTR closed the meeting thanking all participants for their comments and commitment to the process. He confirmed that some of the concerns raised will be solved when the full analysis is ready, and that this meeting served the purpose of sharing how the methodology presented in March is being implemented. DG ENTR wants this exercise to be of the highest quality possible but also acknowledges that it cannot be extended forever. No matter how much time we invest in discussing, the resulting document will not be capable of fulfilling all expectations or beliefs, however it should be robust enough to allow an informed discussion on the areas where disagreement remains.

## **NEXT STEPS**

- Stakeholders invited to submit written comments by 5<sup>th</sup> December
- Presentation on the fitness check included in the December 2014 Refining Forum agenda scheduled for the 11<sup>th</sup>.
- DG ENTR to convene a new meeting when the missing outputs and analysis are finalized.

**Contacts:** Jesus Barreiro Hurle, tel. 84852

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<sup>i</sup> The final communication to the EC was submitted on December 5<sup>th</sup> endorsed by FR, UK, IT, PL, DE and IE.