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Directorate A - Energy policy
A.4 - Economic analysis and Financial instruments

Summary of the seventh meeting of the EU Refining Forum
Brussels, 2 February 2017

The seventh meeting of the EU Refining Forum, organised by DG Energy, took place on the 2nd of February 2017.

Some 150 participants from 20 EU Member States, the oil refining industry, the European Commission, the European Parliament as well as other stakeholders gathered to discuss policy and market developments of relevance to oil refining in the EU.

Dominique Ristori, Director-General of DG Energy, opened the meeting of the Forum and welcomed speakers and participants. In his welcome address, he highlighted the role refining plays for innovation and security of supply. Therefore, it is important to maintain a solid refining sector in Europe and avoid the risk of the refinery industry relocating. This requires fair competition and the right balance between energy and climate objectives and international competitiveness of the EU refineries.

In his keynote speech, **Commissioner Arias Cañete**, in charge of Climate Action and Energy, stressed the strategic role of refining industry for innovation, employment and security of supply and noted the challenges faced by the sector, including energy prices and costs.

He highlighted the proposals tabled by the Commission during 2016 and underlined that the EU will stick to its commitment to a low carbon economy. He stressed the key role of renewables where the EU has the ambition to become number one in the world. In the transport sector, where oil-based fuels still supply 94% of our energy needs, the proposed new measures will boost the use advanced biofuels and other alternative fuels.

The Commissioner emphasised that clean energy transition is here to stay and is already happening. The refinery sector must adapt to decarbonisation. The refining industry has a strong track record in innovation and will need its innovative spirit more than ever to adapt and to play its part in the energy transition.

He also underlined the importance of maintaining a constant and constructive dialogue with stakeholders notably on the impact of regulatory proposals on the sector and the better understand and discuss the challenges that we face.

László Varró, chief economist of the International Energy Agency (IEA), focused in his presentation on the future of energy technology and oil in the transport sector. Oil is still the backbone of transport, supplying 94% of energy used in the sector and low oil prices make it difficult to break this dependence. Electricity provides an alternative and electrical vehicles are becoming more popular but so far they have displaced only a fraction of oil-based fuels. Electric engines are more efficient than internal combustion engines but storing electricity remains a challenge. Storage technology is advancing rapidly but European companies are not among the frontrunners in this field.

By 2030, electric vehicles are not likely to have a significant impact on oil demand. A large scale electrification of the car fleet requires a strong policy push and further technology development. The sustainability of the current high level of fiscal incentives is questionable. In case of heavy duty vehicles, gas seems to be a more viable alternative.

Globally, oil demand will not peak within the next 25 years: lowering oil use in the power generation, buildings and passenger cars sectors will be more than offset by an increase in aviation, freight transport and petrochemicals. In case of the EU, oil demand in transport sector will decline, especially if governments act on the Paris agreement; oil demand will also fall in the buildings and industry sectors.

Pedro Miró Roig, the CEO of CEPSA, underlined the heavy burden posed by regulation which resulted in the idling of the company's Tenerife refinery three years ago, with significant social repercussions. EU refineries have to undertake massive investments to comply with current and forthcoming legislation, thereby reducing their profitability. Such investments will be possible only if investors are confident in the future competitiveness of the sector.

The reduced competitiveness of European refineries could have repercussions to other sectors. In particular, the closely integrated petrochemical sector, which receives over half of its feedstock from oil refineries, is also at risk.

He pleaded to policy makers for a broader, long-term policy approach, giving investors reasons to believe in the competitiveness of the sector.

Jaime Martín Juez, Director of Technology and Sustainability at Repsol, stressed the company's long-term commitment to sustainability and the significant investments made to reduce emissions and increase the yield of lighter products. The sector is exposed to international competition with the non-EU competitors not facing comparable regulation. He referred to the fitness check published by the European Commission according to which EU regulation added a cost of 0.47 Euros/barrel. The challenges of emission reductions and competitiveness must be addressed together. With reference to the ETS reform, in particular, carbon leakage protection must be effective.

Two Board Members of FuelsEurope took the floor. **Janet June Matsushita** (ExxonMobil) noted that, despite the difficult circumstances, her company continues to believe in the future of refining in Europe and is undertaking significant investments. She argued that the sector needs transparent, predictable policy and stable regulatory framework, imposing the lower possible cost on refineries. **Krystian Pater** (PKN Orlen) pointed out the sectors' good track record of adapting to new regulations but called for an efficient way of implementation.

Ian Duncan, Member of the European Parliament and the rapporteur on the ETS reform, gave a short update on this important file. His report, which reflects a delicate compromise, was adopted by the ENVI committee in December 2016 and will go to the plenary very soon. He underlined the need for a well-functioning emission trading system in which market player have confidence and provides stability for industry.

Allard Castelein, President and CEO of the Port of Rotterdam, explained that the Port hosts Europe's largest refinery cluster and also supplies refineries in the surrounding countries. The five refineries located within the Port, together with electricity generation units and petrochemical plants, cover a large part of Dutch CO_2 emissions.

Mr Castelein presented the Port's ambitious energy transition strategy entitled "renew the existing, welcome the new" which intends to decarbonise the Port's activities. Refineries have an important role to play in this energy transition, including the deployment of technology using residual heat and CCS. The EU can contribute to such a transition by, inter alia, providing a stable and predictable policy and legal framework.

In the absence of the representative of the Maltese presidency, **Mechthild Wörsdörfer**, Director for Energy Policy provided an update on the most important files to be discussed by Council during 2017.

Representatives from eight Member States took the floor and reported on recent developments and expressed their views on the most relevant issues for the international competitiveness of the refining industry. They underlined the importance of the sector for the economy and for security of supply. While in most Member States consumption has been stable in 2016 and no refineries were closed, the situation of the sector remains challenging: there is an overcapacity, the cost of energy and capital is on the rise and refineries have to cope with a number of EU regulations and strong competition from non-EU refiners.

Member State representatives highlighted the difficulties and the related costs imposed by the implementation of EU legislation, including the industrial emissions directive and the fuel quality directive. The revision of the emissions trading scheme was also mentioned and delegates called for addressing the risk of carbon leakage and any intra-EU distortions, and avoiding the discriminative treatment of new investments. The recent IMO decision on the sulphur level of marine fuels was also highlighted as an important development having an implication on the refining sector.

Some Member State representatives also commented on the future of transport, emphasizing the importance of technology neutrality. Furthermore, energy prices and costs were highlighted as key elements of the sector's competitiveness which should be monitored.

Member State delegates underlined the importance of continuing the EU Refining Forum and recommended to focus the agenda on the key issues affecting the competitiveness of the EU refining industry. Some Member States also called for the update of the fitness check, extending it to post-2012 legislation.

Ralf Diemer, head of the economic analysis unit of DG Transport and Mobility, stressed that low-emission mobility is an essential component of the transition to a low-carbon economy. He presented the three pillars of the Commission's low-emission mobility strategy adopted in mid-2016: efficiency of the transport system, low-emission alternative energy for transport and low/zero emission vehicles.

Extensive modelling was carried out to project possible pathways towards low-emission mobility. Transport activity is projected to increase under all scenarios but this is offset by improvements in energy intensity, resulting in declining energy demand and CO_2 emissions in the sector. The share of alternative fuels is projected to increase to 15-17% in 2030 but oil products are to remain predominant in the EU fuel mix in the next 15 years. By 2050, alternative fuels are projected to cover about 60% of transport demand, driven by electrification and the extensive use of biofuels.

John Cooper, Director General of FuelsEurope, commented on key market developments having an impact on the sector, including the IMO decision on marine fuels, lasting low oil prices and a shift towards gasoline in the vehicle fleet. He stressed that oil products will be needed for many decades ahead and EU refineries need to compete on an international level playing field. This requires a fair deal on ETS which provides protection from carbon leakage and a pragmatic approach for renewables. In the longer term, global carbon price convergence and an economy-wide carbon price is needed.

He pointed out that the evolution of the transport system will pose a big challenge for the refining industry. Tomorrows' vehicle fleet is chosen by today's regulations and, therefore, it is important to have the best possible regulation for vehicles, today. These regulations should consider the life-cycle carbon emissions throughout the manufacturing, use and recycling of the vehicle. They should also recognise GHG improvements in fuels.

Mr Cooper underlined the role of innovation and investment, highlighting that EU refineries are already the most efficient in the world. He called for stable and predictable regulations and remarked that that innovation in policy is also desirable. He also stressed the important role of the EU Refining Forum which provides a useful platform for the discussion between stakeholders.

Mechthild Wörsdörfer, Director for Energy Policy, concluded by saying that refining remains a strategic industrial sector in the EU. The transition to low-carbon economy poses challenges but also provides opportunities for the EU refining industry. It is essential that the sector remains innovative and competitive in the long run.

There is no shortage of topics to be discussed and hence the Forum will definitely continue, possibly already in 2017, and the Commission will try to devote more time to discussion. Participants are invited to contribute ideas to the topics to be included in the agenda.