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DIRECTORATE-GENERAL FOR ENERGY

Directorate A - Energy policy
A.1 - Energy Policy & Monitoring of electricity, gas, coal and oil markets

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NOTE FOR THE FILE

Subject: Summary and conclusions of the first meeting of the EU Refining Forum held on the 12th of April 2013

Overview

The first meeting of the EU Refining Forum took place on Friday the 12th of April 2013.

A key follow-up to the EU Refining Roundtable launched by Commissioner Oettinger last May, the Forum was established in response to requests by the oil refining industry and Member State representatives, with the aim to provide an opportunity for the industry, Member States, Members of the European Parliament, the Commission and other stakeholders to come together and discuss planned and future regulatory proposals with potentially significant impacts on the EU oil refining industry and on the EU's security of supply of petroleum products.

The participants (100) consisted of representatives from 18 Member States (HU, PL, IT, FR, UK, DE, RO, ES, SE, BE, NL, AT, IE, PT, LT, CZ, FI, CY), the Commission, the EP, Industry, energy experts such as the IEA and the Clingendael institute, a trade union body (industriAll) and journalists.

The focus of the meeting was a presentation on the scope, timing and methodology of the Refining Fitness Check announced in the recent update of the Industrial Policy flagship initiative, "A Stronger European Industry for Growth and Economic Recovery".

Presentations were also given on two Commission initiatives for implementing existing directives: Article 7a of the Fuel Quality Directive, and the revision of the Refineries BREF (BAT reference document) under the Industrial Emissions Directive, of particular concern to the industry in terms of potential impacts on competitiveness.

Other than discussions on policy, there were also two presentations and discussions on developments in the refining sectors and in the supply and trade of petroleum products in the EU and the US.

Conclusions

- A draft of the Refining Fitness Check (FC) mandate will be sent to stakeholders of the Forum with sufficient time for comments and suggestions/ input, after which it will be finalised by Commission services.
- The timing for the finalisation of the Impact Assessment on art 7a of FQD is not known, but COM (CLIMA) have reassured industry that it will be comprehensive, that it will represent a proper evaluation of the costs and benefits of all the different possible options (6 in total), and that the voices of all stakeholders will be heard and considered before the COM proposal is delivered to the Council.
- COM (ENV) will consider the most appropriate way to take into account the outcome of the Technical Working Group meeting for the revision of the Refineries BREF and to continue the work on this issue.
- COM (ENER) will aim to organise two meetings of the EU Refining Forum a year, the intention being to have the second meeting of this year in the Autumn.
- A date will be announced as soon as possible, and will aim to time it with developments in FC.
- Short conclusions on the Forum's discussions will be drafted and sent to stakeholders in the coming weeks, as well as posted online on a dedicated EU Refining Forum web page on the web-site of DG ENER.

Key highlights of presentations/ discussions

- As demand for EU refinery supply continues to diminish (in the EU itself but also in its export markets) more EU refinery closures are inevitable (adding to the 15 out of 90 shut-downs since 2008).
- Europe is increasingly short on some products, while import dependence is on the rise, especially with regard to jet-fuel/kerosene (already representing 40% of consumption for the EU but as much as 80% in FR, 60% in the UK).
- Industry difficulties are compounded by increasing difficulties and costs of supplies of vacuum gas oil (feedstock for complex, cracking capacity normally produced by simpler refineries) as simple refineries are closing down and exports from Russia are being reduced as the country focusses on upgrading capacity (also, it is expected that tax subsidies in Russia, supporting exports, will disappear in 2015).
- Competitive pressures on EU refining are being accentuated by the current situation with US East Coast refineries, which compete with the EU, as these have gained from both significantly lower energy operating costs from cheap shale gas, and from access to cheap tight oil feed stocks.
- The Irish Presidency have included in the agenda of the 23rd of April informal Energy Council meeting a discussion point on the impact of the US unconventional oil and gas “revolution” and its effects on energy supplies and prices.

- According to the IEA, energy costs in EU refineries represent 60% of refining costs vs only 20% in the US.
- \$30 billion in investments in refining are planned in Europe by 2020 but, according to industry, an extra \$21 billion is necessary, in total equivalent to \$1/barrel on the refining margin, which is significant, given usual margins of between 0 and 5 in last few years. Much of these investments will not generate returns, and are just to stay in business.
- According to industry, the mismatch between gasoline and diesel demand and supply, which is a key contributing factor to the sector's difficulties, has to a large extent been policy-driven. This underlines the importance of reviewing policy to be able to understand and to address unintended side effects.
- The Italian draft law on the authorisation of oil products imports has been put on hold pending progress that could be achieved at EU level.
- The refining fitness check will assess the relevant EU regulatory framework for the sector, including its impact on the industry's performance. The initial scope should include a number of relevant measures, also of horizontal nature, but only the provisions that will be identified as of significant relevance for the sector shall be taken into account in the exercise. The fitness check should ultimately focus on how coherently and consistently the relevant EU legislation works together, whether it is effective and efficient, and to look for excessive regulatory burdens, overlaps, gaps, inconsistencies and obsolete measures.
- Fitness checks are essentially ex-post analyses of existing legislation. Impact assessments still have their part to play, and they need to be conducted properly so as to anticipate and evaluate the future impacts of policy proposals. Insofar as there is quantitative evidence of investments anticipating the introduction of future legislation, this evidence could be taken into consideration in the last stage of the exercise. The industry is welcome to submit its own evaluations on the impacts of legislation to the Commission.
- The European Parliament needs to be closely involved in fitness checks and competitiveness and security of supply are necessary considerations in such undertakings, including an evaluation of the impacts of EU regulation on the imports of refined products.
- Policy initiatives such as art 7a of the FQD and the implementation of the IED will carry on as the fitness check takes place. The industry asked to take this into account in the fitness check in order to assess their fitness for purpose, and their effectiveness in achieving intended objectives.
- According to COM (DG CLIMA), the basic reporting data that has to be supplied by industry was already agreed in 2009 and is already being reported. What's required now is simply an additional methodology for the measurement of GHG emissions which is not so burdensome as industry make it sound. The whole issue of crude switching is an open debate.
- Industry on IED: there is no proposal from the European IPPC Bureau to include the key issue of the bubble approach in the BAT conclusions. This was challenged at Technical Working Group level by a majority coalition industry and several MSs which resulted in a dissenting view from 12 TWG members. The

refining sector calls for a decision on BAT conclusions allowing the bubble concept to manage industrial emissions at refinery plants.

- COM (DG ENV) does not exclude the use of the bubble concept. This needs to be consistent with, and thereby not undermine, the provisions introduced in the IED that define BAT and strengthen its application. Furthermore, the IED has a robust mechanism allowing deviation from BAT levels where economic costs are disproportionate. Therefore, it needs to be clear what is exactly meant by the bubble concept, how it could work, where it is needed and to make sure that if it is implemented it delivers what it promises to deliver.