



Department
of Energy &
Climate Change

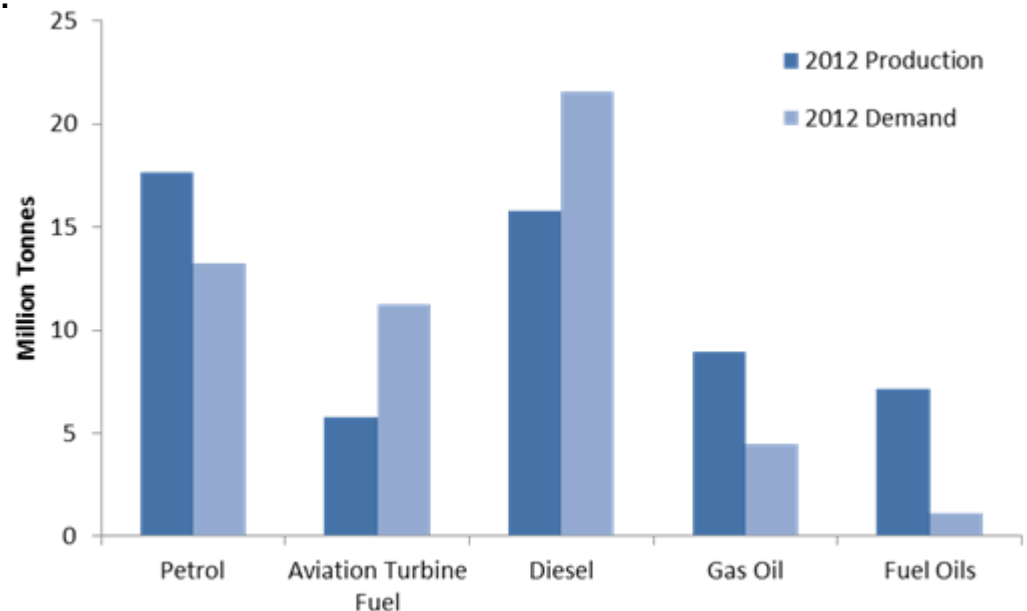
UK Review of the Refining and Fuel Import Sectors

Rachael Drake, DECC, UK Government, May 2014



UK demand and supply

- **UK Demand:** In 2012 demand for oil products in the UK totalled 61 million tonnes. Our forecasts indicate that total energy demand in 2030 will still be 50 million tonnes – equivalent to the output of six medium sized refineries per year.
- **UK supply:** In 2012, UK refining met 61% of total domestic demand and the UK relied on imports to supply the remaining 39%, with c. 20% of imports supplied by UK refiners. For middle distillates imports are higher, with 44% of diesel demand and 64% of aviation fuel demand being met through imports.
- **Production/demand imbalance:** Domestic refineries, like most of those in Europe, were largely established to produce light and heavy distillates and so are not set up to meet the level of middle distillate demand required today, or expected to require going forward.





Assessing the current system

We assessed the midstream supply chain against three criteria:

- **Resilience:** is there sufficient capacity in the supply system to meet demand, in business as usual and in a supply disruption?
- **Economic:** what contribution does the sector make to the UK economy?
- **Social and environmental:** jobs, skills and the environmental/health and safety framework.

How does the current mix of refining and imports perform?

- **Resilience:** a mix of domestic refining and imports has ensured the UK has a good supply of oil products; refiners have access to crude products and provide a source of product within the UK; imports help mitigate the supply-demand imbalance for middle distillates. Wholesale UK road fuel costs among the lowest in Europe. **GOOD FOR RESILIENCE.**
- **Economic:** £2.3bn to GDP and £366m in tax revenue. **GOOD FOR THE ECONOMY.**
- **Social and environmental:** Around 30,000 jobs; highly skilled. Refineries provide the large majority. Sector operates within a regulatory framework designed to protect the environment and mitigate major accident hazards. **GOOD FOR JOBS.**



The challenges

But the sector faces – and will continue to face – real challenges, combining to put downward pressure on margins for European refiners in particular:

- **Over-capacity in the EU** – several refinery closures across the continent over recent years, and further change to the market possible
- **Changes to the global oil market** – extraction of light tight oil in the USA and increased utilisation of US refining capacity
- **New refineries outside the EU** – emerging economies investing substantially in their own refining capacity to capture the value added from oil products

The call for evidence also saw respondents highlight the following concerns:

- **Uneven playing field** – several indicated a concern that refiners and importers could not compete fairly due to different approaches on duty and oil stocking obligations.
- **Infrastructure access** – difficulties with pipeline access and limited incentives to invest in new storage capacity.
- **Regulatory burden** – many respondents cited legislative burdens and associated compliance costs as significantly affected their competitiveness with non-EU refineries.



Policy action – current approach

Existing government policies seek to address some of the challenges faced by industry:

- **Infrastructure investment** – the UK Guarantee Scheme may be available to support debt raised to make refinery investments (subject to individual assessment and state aid)
- **Energy costs** – Budget 2014 announced package of relief for Energy Intensive Industries whose competitiveness is impacted by climate change policies
- **Energy efficiency investment** – the UK Green Investment Bank is now engaged with the refining sector on projects that can enhance energy efficiency
- **Regulatory and policy framework** – government wants to strike a balance between effective controls and industry burden; e.g. work with industry and regulators on the Control of Major Accident Hazards (COMAH) regulations; simplifications of the EUETS and CRC Energy Efficiency scheme.



Policy action – next steps

	Action
1	Midstream Oil Task Force – joint HMG and industry, with an independent chair, to drive forward action from the refining review.
2	Taskforce to assess the extent to which pipeline access is a problem and how it could be improved with a voluntary code of practice on third-party access.
3	Government to assess the costs, benefits, and value for money of action to address other market distortions and infrastructure investment.
4	Taskforce to identify opportunities for smarter regulation .
5	Government to assess the levels of obligation to hold emergency oil stocks held by companies, including whether the balance between refiners and non-refiners remains appropriate.
6	Industry to prepare a roadmap for a Central Stocking Entity ; if agreeable to government then legislation taken forward to establish this.
7	Ensure the EU refining fitness check process is completely quickly and delivers decisive action to remove unnecessary burden.