



EUROPEAN COMMISSION
DIRECTORATE-GENERAL FOR ENERGY

Directorate A - Energy policy
A.1 - Energy policy coordination

Brussels,
ENER A1/MCD

NOTE FOR THE FILE

Subject: Highlights and summary of the fifth meeting of the EU Refining Forum held on the 15th of June 2015

Overview

The fifth meeting of the EU Refining Forum, organised by DG Energy and chaired by Mechthild Wörsdörfer, Director for Energy Policy, took place on the 15th of June 2015.

More than 100 representatives from mainly industry and EU Member States gathered together with representatives from the Commission and the European Parliament to discuss the current views of industry and Member States on oil refining in the EU.

Mechthild Wörsdörfer welcomed participants and provided a brief update on the follow-up on Energy Union.

Philippe de Backer, Member of the European Parliament, ITRE committee member and ECON committee substitute, followed by Gianni Murano, CEO of Esso Italiana, provided their views on the importance of keeping refining in the EU, in the context of the objectives of Energy Union.

Antoine Halff, Head of the Oil Industry and Markets Division at the IEA, provided an update on recent developments in global refining and in the supply and trade of petroleum products.

Jesus-Barreiro Hurlle, Policy Officer, DG GROW, and Ruslan Lukach, Scientific Project Officer, Joint Research Centre, delivered the final results of the Refining Fitness Check.

Sara Piller and Anne Giral-Roebing, policy officers in the Secretariat General of the Commission, provided a presentation on how the new approach of the Commission to better regulation complements the Refining Fitness Check.

A number of Member State representatives delivered a joint statement in response to the results of the Refining Fitness Check.

A presentation was given by Anastasios Chrysochoou from the Greek Ministry of Reconstruction, Production, Environment and Energy on a review of the refining sector in Greece.

Hans Bergman, Head of Unit in DG CLIMA provided an update on addressing the risk of carbon leakage in the ETS revision post 2020.

Alessandro Bartelloni, Policy Director at FuelsEurope, provided the industry's views on the Refining Fitness Check and refining competitiveness.

Summary & conclusions

The central focus of the meeting was the delivery of the final results of the Refining Fitness Check, with findings that over the course of 2000-2012, the EU's key regulations affecting the sector represented an annual quantified average cost of 47 eurocents a barrel, the cost impact from regulation having increased from 2000 to 2008, after which it stabilised.

One of the conclusions in terms of the impacts from these findings is that it implies diversion of revenues towards regulatory compliance rather than making other investments that improve the sector's competitiveness, although it corresponded at most to 20% of the sector's margin decline over the period 2000-2012, while the relative increase of energy costs in the EU has contributed much more to the relative decrease of the sector's margins over that period.

In terms of specific impacts of EU legislation, it was concluded that fuel quality and industrial emissions legislation lead to sizable additional investments by refineries in desulphurisation and emission abatement capacities and the corresponding operating costs (to a great extent due to increased energy consumption).

The assessment however also shows that the most visible quantifiable benefits of legislation are associated with decreasing the damage from the emissions avoided by complying with the transport fuel sulphur standards and industrial emissions from refineries in general.

In the discussion that followed the presentation, it was pointed out that other industrialised countries have similar regulations affecting their refining sector.

A joint statement was delivered by MSs (DE, IE, IT, PL, UK, NL), expressing concern at the impact of EU legislation on EU refining margins and its contribution to the relative loss of competitiveness against its main competitor regions and asking that more be done to ensure that the evidence and implications from the Refining Fitness Check can inform new legislation.

Specifically on the Refining Fitness Check, the statement proposes the following actions: invite Vice-President Timmermans to intervene at the next meeting of the EU Refining Forum to detail how the outcome and conclusions of the Refining Fitness Check will be used to further improve the regulatory framework of the sector; setting up a meeting with Member States and the Commission to discuss the conclusions of the staff working document on the Refining Fitness Check; ensure that future impact assessments affecting refining should take into account the Refining Fitness Check results prior to the finalisation of that impact assessment; use the Refining Fitness Check as a basis for future assessment of the sector given the success of its analysis to date.

Representatives of the Secretariat General explained how fitness checks fit into the Commission's Better Regulation package, highlighting that the package brings a reinforced focus on evaluations, including fitness checks, and that possible use could be to feed such sector-specific evaluations into future policy evaluations/ impact assessments.

Mechthild Wörnsdörfer recalled the main objectives and deliverables under the five dimensions of the Commission's framework strategy on Energy Union, and announced that the Commission would take stock later in the year in its first State of the Energy Union report. She also briefly described the process to put in place a system of governance for the Energy Union.

ALDE MEP Phillip de Backer highlighted the importance of asking and answering the question 'which problem are we trying to fix?' before embarking on any new regulatory proposal, and that proposals then needed to measure the impacts and accumulation of regulatory costs on industry and spoke of the importance of keeping strategic sectors such as refining in Europe.

Gianni Murano of Esso Italiana spoke of the continued importance and relevance of oil and gas for the foreseeable future, and highlighted the contribution of the EU refining industry to the EU economy in terms of variety of products, employment, value-added of the activity and tax revenues. He spoke of the need for energy taxation that is consistent across the EU and takes into account energy content. He asked for the removal of subsidies in the energy sector, thereby allowing markets to work and requested transparent, predictable and markets-based EU policies which avoid unnecessary costs for the sector. On the results of the Refining Fitness Check, he commented that certain regulatory impacts on operating costs were in fact more significant than conveyed by the results, such as moving to low sulphur crudes or blending.

Antoine Halff of the IEA highlighted encouraging signs of a recent pick-up in the EU refining industry's production and refining margins but expressed the expectation that the current recovery will be rather short-lived due to the significant challenges for the EU refining industry (such as high regulatory burden, high energy, feedstock and labour costs and falling regional demand, as well as ageing, fragmented EU industry).

Anastasios Chrysochoou from the Greek administration presented a study on the positive impacts of the refining sector in Greece, despite the crisis. He highlighted that the Greek refining sector invested €2.7 billion between 2009 and 2012, even as the GDP of Greece contracted by 20% over that period, and that Greek refineries' activity contributed about €3.8 billion in 2012 (representing 2% of GDP). He called for continued allocation of free ETS allowances to the sector beyond 2019, a balanced approach in the implementation of policy measures on climate, energy and the environment which takes into account impacts on competitiveness as well as the Refining Fitness Check's conclusions before deciding on changes in the legislation that affect the refining sector. He also spoke of the importance to avoid unilateral EU measures, and in that vein to push for a global agreement in COP Paris 2015 on greenhouse gas reduction.

Speaking about addressing the risk of carbon leakage in the ETS revision post 2020, Hans Bergman of DG CLIMA noted the joint response of energy intensive industries to the questionnaire which Commissioner Arias Cañete submitted to the industry on the subject. He explained that an important element determining the upcoming proposal was the strategic guidance given by EU leaders in October 2014, including notably that carbon leakage provisions will continue post 2020, but - given that the amount of free allowances is limited and declining, in line with the decreasing emissions cap of the ETS - the future use of free allocation must be even more efficient and targeted than today. He also highlighted that the wording in the strategic guidance relating to the most efficient installations, which states that such installations should not face undue carbon costs leading to carbon leakage, did not mean that such installations should not necessarily have to face any costs. He explained that the question of the ability of industry to pass-

through costs without losing market share could be useful in determining what could be considered as 'undue costs'.

Alessandro Bartelloni of FuelsEurope offered support to the Joint Statement of Member States and underlined that the Refining Fitness Check did not assess the impacts of regulation beyond 2012 and yet that a lot had happened since then. He called for the Refining Fitness Check exercise to be continued, that it should become a 'living document' to remain relevant and that it should be included in any future impact assessments of legislative proposals affecting the sector. On ETS revision post 2020, he advised the Commission against using cost pass-through as an argument for less carbon leakage protection, as it would not be possible without losing market share.

The Commission concluded that follow-up on Energy Union and European Energy Security Strategy as well as topics of interest to participants would continue to be discussed at future meetings of the Forum; responded positively to Member States' request to discuss the follow-up of the Refining Fitness Check with the Commission, proposing to approach Commissioner Arias Cañete to attend the next meeting of the Forum; and highlighted how the better regulation package would better reflect sectors' views on proposals which have a potential impact on their competitiveness.

Background on the EU Refining Forum

On the 15th of May 2012, Commissioner Oettinger organised an EU Refining Roundtable, at which representatives of all 21 EU Member States with an oil refining presence, Members of the European Parliament as well as representatives of the EU refining industry and of trade unions were convened to share views on the difficulties faced by the EU oil refining sector and to assess the need for coordinated action at the EU level to deal with the sector's difficulties.

In response to requests by industry and Member States at the Refining Roundtable, the Commission then organised an EU Refining Conference on the 26th of November 2012. This conference provided stakeholders the opportunity to give their views on the Commission proposals for a horizontal sectoral fitness check of oil refining announced in October 2012 in the communication on industrial policy, and on the setting up of an EU Refining Forum.

The aim of the EU Refining Forum is 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.