Highlights and summary of the sixth meeting of the EU Refining Forum held on the 1st of March 2016

Overview

The sixth meeting of the EU Refining Forum, organised by DG Energy and chaired by Mechthild Wörsdörfer, Director for Energy Policy, took place on the 1st of March 2016.

Some 140 participants from 19 EU Member States, the oil refining industry, the Commission, the European Parliament and the European Council Secretariat 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, welcomed speakers and participants and introduced Commissioner Arias Cañete, in charge of Climate Action and Energy, who delivered a keynote speech.

Elisabetta Gardini, Member of the European Parliament, ENVI committee member, provided her view on why maintaining a competitive EU refining sector is important.

Peter Mather, Group Vice President Europe (BP) and Board Member at FuelsEurope, spoke on establishing a strategic view for the EU refining industry.

Kristine Petrosyan, Oil Market Analyst, IEA, provided an update on recent developments in global refining and in the supply and trade of petroleum products.

Yiannis Boutaris, Mayor of Thessaloniki, Greece, explained how refineries contribute to local economies, using the example of Thessaloniki.

A presentation was given by Erik Janssen, Senior Adviser, Ministry of Economic Affairs, from the Netherlands on the Netherlands presidency agenda on ensuring industrial competitiveness.

Tom Howes, Deputy Head of Unit, Unit A4, DG Energy, gave a presentation on the upcoming energy prices and costs report.

John Cooper, Director General, FuelsEurope spoke on global competition and the role for Europe’s refineries.
Summary

In his introduction, **Dominique Ristori**, Director General of DG Energy, highlighted the importance of the EU refining sector. He further expressed the view that industrial competitiveness remains a key value for the EU and that the refining industry is an important component of the EU economy.

In his keynote speech, **Commissioner Arias Cañete**, in charge of Climate Action and Energy, highlighted the success of the Paris international climate agreement. He underlined the importance of maintaining a close dialogue with stakeholders notably on the impact of EU legislation on the refining sector. While recognising that refining remains crucial to the EU's security of supply, hence the continued need for a competitive and sustainable industry, he reflected that meeting the EU's 2050 goals and climate objectives will entail considerable reduction in the consumption of fossil fuels such as petroleum products, with the further reduction in capacity that it entails.

Commissioner Arias Cañete however also recognised that the transition will not happen over night and that there was therefore a duty to ensure regulatory certainty and stability as well as to ensure that the EU's decarbonisation plans do not undermine the domestic industry's competitiveness.

He further announced that all of the EU's industrial, energy and climate policies would take a more interlinked approach. In addition, he underlined the importance to the industry of the Paris climate agreement in terms of narrowing the gap at the global level as it signs up some of the EU's closest industrial competitors to more ambitious climate targets.

**Elisabetta Gardini**, Member of the European Parliament, and **Yiannis Boutaris**, Mayor of Thessaloniki, spoke about numerous advantages in retaining a refining industry in the EU, notably in terms of security of supply, as well as the EU sector's relatively lower CO2 intensity, environmental footprint and higher energy efficiency compared to other parts of the world and in terms of the contribution in terms of GDP, taxes, highly skilled jobs and health of local economies in a context of continued use for oil products for years to come.

**Elisabetta Gardini** also spoke of the need for protection from carbon leakage (including both direct and indirect ETS costs) to maintain an international level playing field so that the EU refining industry can maintain its excellence and growth. Furthermore, she stressed the need to keep updating the Refining Fitness Check and ensure that it is kept as a 'living document'.

**Peter Mather**, Group Vice President Europe of BP and Board Member of FuelsEurope, talked about the challenges, changes and initiatives to which the EU refining industry has responded over the last 30 years by going through a successful evolution. He expressed the view that refineries will continue to be needed in the EU even in the long term as it is still unclear what other technologies could replace the internal combustion engine and he highlighted that rapid changes requiring technological revolutions often do not work.

**Kristine Petrosyan**, Oil Market Analyst, IEA, reflected on strong increases in production of the EU refining sector in the past year as well as high utilisation rates and increased refining margins. She highlighted how low crude prices had boosted global demand for crude. On the other hand, she underlined that aggressive capacity expansions in the next five years would further increase spare capacity. She reflected on the
continued high dependence of the EU on both crude and middle distillates imports and how this combined with increased production in the EU (the region with some of the highest middle distillate yields) has been depressing the margins (cracks) on these products, while gasoline margins had been supported by healthy US demand for gasoline.

She concluded by saying that more capacity rationalisation in Europe has yet to come, on the basis of a return to a situation of reduced need for US gasoline imports from the EU and increased imports of middle distillates into the EU.

A number of Member State representatives, including Italy, Belgium and Spain, asked for the Refining Fitness Check to be a dynamic exercise, which should be continuously updated, taking into account upcoming legislation, especially the implementation of phase 4 of the ETS, which would add further to the regulatory burden on the sector. The UK representative talked about the key importance of domestic refineries for the resilience of the UK economy in the face of possible international disruptions of energy supply.

Mechthild Wörsdörfer said that it was too early to say whether the Refining Fitness Check would be updated in the future but highlighted the usefulness of the exercise, in particular in terms of the data which was produced and analysed as part of it and which would continue to be used beyond the fitness check, in future impact assessments of relevant regulatory proposals.

Erik Janssen, Senior Adviser, Ministry of Economic Affairs, Netherlands outlined in detail some of the main initiatives on the Netherlands presidency agenda of relevance to industrial competitiveness. He spoke for instance about competitiveness mainstreaming, with the objective to ensure that the competitiveness of the European economy is better taken into account when new European rules are being developed, and highlighted the importance of the Refining Fitness Check as a reference study in that context.

Talking also about energy and climate policies under the Netherlands Presidency, he spoke about the need to implement the COP21 agreement in such a way as to allow the EU to meet its targets without this negatively impacting on competitiveness, and on phase 4 of the ETS, he called for effective protection against carbon, investment and job leakage after 2020 until competitors in third countries are subject to similar regulatory burdens as the industrial sector in Europe.

Tom Howes, Deputy Head of Unit, DG Energy, gave a presentation on the upcoming second energy prices and costs study, which will provide further, more detailed data than the first study published in 2015, including econometric analysis of the drivers and more detail on the price components. He highlighted that petroleum products would be included in this study and urged participants to contribute to what in the end will help lead to a better understanding of some of the issues affecting the energy sector.

John Cooper, Director General of FuelsEurope, echoed some of the messages of Mayor Boutaris on the role of refining in local communities and expressed the view that the industry's voice has been heard, and that the creation of the Forum and the Refining Fitness Check represented proof of that. On the latter, he reiterated the call by Member States for future updates, noting that changes had already occurred since the end of the period under study.

He expressed support for the Paris agreement yet highlighted the need to take into account differences in international competitiveness resulting from various factors, the
most important of which is currently the cost of energy, and the need to maintain as level a playing field as possible (taking into account that operating in the EU means no trade barriers are in place to limit competition, unlike in other economies). He spoke also of the expected rising cost of carbon under phase 4 of the ETS for EU industry in the context of limited carbon pricing schemes world-wide, which points to the importance of continued measures to limit carbon leakage. He also emphasised the need to avoid picking winners in transport decarbonisation and to let the market deliver the solutions.

John Cooper’s intervention was followed and supported by interventions from other representatives from industry, which included the CEOs of Hellenic Petroleum and of CEPSA, highlighting further the contribution of the sector to the EU economy, the need to consider differences in competitiveness and in regulatory burden between the EU and other parts of the world and the possibility to consider an EU restructuring plan.

Mechthild Wörsdörfer, Director for Energy Policy, responded that the role of the Commission was to be aware and attentive to the challenges faced by the sector and to discuss and decide, together with Member States, what could be realistically done in response, such as by being aware of the accumulated costs of regulation and to seek to minimise them. She concluded by saying that a major challenge of this industry, which this Forum would continue discussing, is how to manage the transition to a low carbon economy, taking note of the need also to safeguard security of supply and competitiveness. She announced that the next meeting of the Forum would be in the autumn of this year and invited participants to contribute ideas to the topics to be included in the agenda.

Conclusions

- It was agreed that the Commission should continue to organise meetings of the EU Refining Forum in order to maintain a close dialogue with stakeholders notably on the impact of EU legislation on the refining sector.

- A major challenge of this industry, which this Forum should continue discussing, is how to manage the transition to a low carbon economy, taking note of the need also to safeguard security of supply and competitiveness.

- The next meeting of the Forum will be in the autumn of this year and participants are invited to contribute ideas to the topics to be included in the agenda.
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.