EUROPIA Position on the Fuel Quality Directive Proposal to Regulate GHG Emissions from Road Fuels

On January 31st, 2007 the Commission published its recommendations on the Fuel Quality Directive Review regulating the quality of petrol and diesel road transport fuels in the EU. EUROPIA would like to state its position specifically on one of the proposals of the review, namely the provision in Article 7a to regulate greenhouse gas (GHG) emissions from liquid road fuels.

EUROPIA understands the desire by the European Commission to introduce cost-effective GHG legislation for road fuels, for vehicles and for the demand side as part of the Integrated Approach.

EUROPIA supports a technology and sector neutral, performance orientated approach for setting a GHG emission reduction target rather than by mandating specific technology approaches.

However, EUROPIA believes that inclusion of Article 7a in the Fuels Quality Directive is premature and should be deferred until the issues of concern, specified below have been adequately resolved.

Article 7a of the Fuels Quality Directive introduces a concept that has merits but opens a number of essential yet unresolved issues. It is, however, important for both the Auto and Oil industry, and for the harmonious introduction of biofuels as per current legislation, that other dispositions of the Directive are adopted without undue delay.

For these reasons EUROPIA proposes that Article 7a be withdrawn from the current Directive proposal while a wide and comprehensive consultation process is put in place to settle all outstanding issues, and to arrive at a properly considered regulatory proposal.

Article 7a of the Fuels Quality Directive proposal should be replaced by an article committing the EU Commission to develop an appropriate GHG methodology which defines the application scope, recognises and resolves the potential overlap with ETS, and assesses the feasibility of a reduction target in line with the upcoming Renewables Directive as well as business, economic and social impacts.

Background:

EUROPIA has a number of serious concerns related to the current proposal in the Fuel Quality Directive that need to be resolved:

1. There is a potential for overlapping and conflicting legislation.

The proposal potentially duplicates and conflicts with a number of existing pieces of EU legislation, namely:

- ✓ **The Biofuels Directive:** The 2003 Biofuels Directive coupled with the 2020 biofuel target agreed at the 2007 EU Spring Summit, is currently the primary legislative instrument regulating the use of biofuels in road transport fuels. The Biofuels Directive Progress Report (January 2007) indicated that the Commission was considering introducing a measure of recognition of GHG emission performance into the Biofuels Directive effect of which could be analogous to the current proposal in the Fuel Quality Directive.
- ✓ **EU Emission Trading Scheme:** GHG emissions associated with EU Oil Production and Refining are already accounted for and regulated under the current EU ETS. There appears to be no rationale that justifies the additional regulation of the GHG emissions associated with the production of conventional road transport fossil fuels, which represent just one element of the overall output of a typical refinery.

2. The required product portfolio and specifications necessitate more complex refineries with increasing GHG emissions, which it is unlikely, can be compensated by ongoing energy efficiency increases and other GHG mitigation measures.

The European refining structure, and its energy consumption, has evolved to most efficiently convert the available crude oils and other feedstocks into the required product demand and quality. This has contributed to European economic growth and to the improvement of vehicle fuel efficiency and emissions.

An approach differentiating refineries based on their energy intensity would disadvantage complex, highly upgraded refineries, and favour those locations that have limited ability to produce more road transport fuels from surplus fuel oil. This would create a perverse incentive for the incomplete / inefficient conversion of crude, leading to a wasteful use of fossil resources and a detrimental impact on security of supply due to higher demand for imports. The trend for more complex and energy intensive refinery activities is likely to continue in order to meet the challenge of demand shifts in the road transport fuel pool and ever increasing quality requirements with a directionally heavier (lower quality) crude slate.
EU refineries energy efficiency has continuously improved over the last 15 years. Further improvements are still possible but become more challenging to achieve, while only a limited number of refineries may be in a position to apply other GHG emission reduction measures such as CCS.

Although there are differences in GHG footprints between crude types, a scheme that would seek to differentiate crude oils for the EU supply would not have any global impact on GHG emissions, as this would merely encourage a "shuffling" of crude oils within the global market with adverse implications on European security of supply.

As a result, the scope for reducing the GHG emissions of fossil fuels from the crude supply and refining is very limited.

Moreover, refineries are complex and highly integrated processing facilities, and it is impractical to assign realistic and accurate GHG intensity factors to specific products, either domestically produced or imported. For imported products, which are forecasted to grow, it is not certain whether GHG emission data will be made available and no reduction obligation would be enforceable for non EU supplies.

EUROPIA therefore believes that conventional fossil road transportation fuels (e.g. gasoline and diesel) should be excluded from Article 7a. Conventional fossil fuels (gasoline and diesel) should be used only as baselines for comparing the GHG life-cycle performance of biofuels. This would require defining typical, fixed standard reference values for Well-to-Tank GHG intensities for gasoline and diesel that are representative of the EU's marginal crude supply and refining infrastructure.

3. Biofuels introduction is the only short and medium term option to reduce the GHG of road fuels but the proposed target is unrealistic.

Within the energy sector, direct use of biomass for heat and power applications offers greater GHG savings than use in the transport sector. Nevertheless, if policy imperatives require biomass to be used in the transport sector, then regulatory measures must encourage the most cost effective options that enable greatest GHG benefit.

In contrast to conventional fuels, biofuels provide substitution of fossil by renewable energy and therefore offer a potential for GHG emission reductions. The regulation should therefore focus on biofuels, and encourage and reward them on the basis of their life-cycle GHG emission performance.

The target or ambition level for biofuel use in the transport sector should be consistent with overall biomass availability forecast, both from EU indigenous and imported sources and, importantly, with the Commission's ambitions in the power generation, heating and cooling sectors, which may compete more cost effectively for the same biomass resource. With this in mind, the proposed GHG emission reduction target needs to be re-assessed both as a start and later on a regular basis to account for

- ✓ Status of developments in the biofuel sector including the introduction of advanced biofuels and overall biomass availability for competing uses.
- ✓ Impact on supply and cost for EU transportation fuels.
- ✓ Evolution of car fleet and OEM strategies.
- ✓ Progress against the target.

In any case, imports of biofuels from outside of the EU (i.e. ethanol from sugar cane) have the potential to play a significant role in delivering GHG emission reductions. Therefore, policies must not restrict the access or use of such imports, provided that suitable sustainability criteria (when defined) have been met, and their implications on the overall emissions of the European fuel market are considered.

4. A clear and unambiguous life-cycle GHG emissions methodology needs to be developed by the EU Commission.

There are a number of such methodologies currently being developed within Europe. EUROPIA believes that a methodology to practically and efficiently assess biofuel life-cycle GHG intensity should be developed in a multi-stakeholder process with the objective of delivering an acceptable, tested and harmonised scheme for the whole of the EU. This should be completed prior to implementation of this proposal. Once a suitable scheme has been defined, a trial period will be required for feasibility evaluation before implementation.

5. Fuel specifications must remain consistent with both fuel legislation constraints and engine needs.

The current situation of the mismatch between biofuel targets and both vehicle compatibility and fuel specifications must be resolved. Future targets should be accompanied by a process to ensure that the automotive industry and fuel suppliers are in a position to supply vehicles and fuels on a mass-market basis that will enable biofuel targets to be achieved.

6. Fuel producers should have the flexibility to use tradable credit to fulfil their obligations.

The introduction of tradable credits representing the GHG emission reduction of the biofuel should be considered. These tradable credits should be used in support of meeting targets and should allow pooling between grades, between fuel suppliers within markets, and across Member States. Furthermore, there should be only one common trading system associated with road transport fuels GHG emission reduction performance and biofuels.

EUROPIA would welcome the opportunity to engage with the Commission and work towards developing the appropriate and cost-effective legislation.

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