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INFORMATION NOTE

from: General Secretariat of the Council
to: Delegations
Subject: Concerted actions to sustain the competitiveness of the EU refining industry
- Information from the Italian delegation

Delegations will find attached the abovementioned information note.
Concerted actions to sustain the competitiveness of the EU refining industry

The refining industry will continue to play a key role in the world energy mix and petroleum products will remain essential, above all in the transport sector, and in particular in aviation and shipping. The International Energy Agency (IEA) outlines various more or less "virtuous" scenarios, in the best of which over 62 % of consumption would continue to be met by fossil sources (oil, gas and coal). In the worst of cases, the figure would be over 80 %. In the transport sector, there seems to be no viable alternative to oil now or in the medium term, even assuming a sizeable increase in alternative engine designs (hybrid, electric, etc.). In the most virtuous scenario, oil would still meet around 80 % of mobility requirements.

Furthermore, the European Union itself has also recognised that the refining industry is a "strategic" sector and even referred to it as such in the conclusions of the Energy Council of 11 February 2011, in which it stated:

"In order to further enhance its security of supply the EU's potential for sustainable extraction and use of conventional and unconventional (e.g. shale gas, oil shale) fossil fuel resources should be assessed, in accordance with existing legislation on environment protection. In this respect due attention should also be paid to the challenges faced by the refining sector which could lead to higher dependence on a limited number of suppliers."

This recognition of the strategic nature of petroleum products and of the importance of the refining sector calls for a massive effort at this point to safeguard the sector in the European industry. With current market distortions generating significant competitive advantages for the refining industries of countries (such as India, Saudi Arabia and China) subject to much less strict legal standards on social security and environmental protection than is the case in Europe, and which in certain cases also receive direct production subsidies (China), pressure on the European refining industry will increase, with the risk of an ever great dependence on refined products from abroad. There is a considerable risk of the security of energy supplies diminishing and the European industrial system being weakened.

The recent economic crisis has exacerbated a longstanding downward trend in consumption. In the future, this trend will be further accentuated by increased biofuel penetration. Moreover, in Europe, surplus capacity is also likely to increase on account of falling levels of petrol exports to the United States. As a result, the European refining system will have to make a first set of major investments to process its own production of petrol and diesel.
Proper management of these changes in national and world petroleum market balances requires considerable improvements to the European petroleum industry's levels of efficiency and competitiveness on the world market, with significant amounts being invested in response to the structural change in demand, to new qualities of crude oil and to progressively tighter environmental standards as regards both the specific characteristics of the products and industrial emissions.

To confront the crisis facing the entire refining sector at European level, emphasis needs to be placed on developing technological research and innovation.

Given that some Member States are already developing national measures to support the sector, action should to be taken at European level including the following steps focused on the development and competitiveness of the entire petroleum refining sector:

1. **Identifying appropriate measures to rebalance competitiveness between countries that are required to reduce emissions and countries that are not**, such as European measures to rebalance the competitive advantages enjoyed by the latter countries with support for the "green label" concept for all European products as compared with those from emerging countries. In this respect, it should be agreed that only products obtained using industrial processes that comply with the same environmental requirements applied in Europe (such as restrictions on CO₂ emissions and pollution) may be used in Europe, that is, only those that are certified with regard to their environmental sustainability.

2. **Using taxation to correct the current petrol/diesel imbalance and its likely worsening in the future**: in recent years, there have been continuous adaptations of refining resources towards ever-increasing diesel production, despite which the continuing growth in demand for diesel in comparison with petrol is giving rise to a persistent imbalance between production and consumption. In the future we will see this imbalance become more pronounced with the implementation of new international standards regarding maritime fuels (complete replacement of bunker fuel with middle distillates). There needs to be discussion on rebalancing the fuel taxation system in such as way as could gradually reverse this trend.
3. Harmonisation of environmental and energy policy

Implementing the "20-20-20" package will provide an opportunity, when the emissions targets in biofuel consumption in the transport sector are checked in 2014, to review those targets in the light of the recent crisis situation in the refining sector and of the impact of the more general world economic crisis. The 10 % requirement by 2020 could therefore be deferred on the basis of an assessment of its coherence with the actual existence of a contribution by second-generation biofuels.

Moreover, the recent Commission proposal on implementing the Fuel Quality Directive should be revised in order to avoid further penalisation of the sector and between Member States.

4. European Roadmap for 2050

In parallel, there needs to be discussion of the long-term decisions that the EU is considering with the recent European Roadmap for 2050 towards a low-carbon economy. For the transport sector, which will continue to constitute a significant source of greenhouse-gas emissions, a reduction of at least 60 % in such emissions is proposed – by 2050 – in comparison with 1990 levels. Given the expected growth in demand for the mobility of persons and goods in the world, such a potential reduction would mean the almost total exclusion of oil from this sector. As the role of oil will continue to be strategic, in particular as regards transport, pursuing the Community strategy for 2050 would entail a de facto abandonment of oil as a source of energy. A more pragmatic revision of the Roadmap would therefore be appropriate, revising the role of fossil fuels in a less punitive way and taking account also of the economic and social sustainability of such a change in order to avoid a further competitive disadvantage for European industry in relation to those third countries that continue to use fossil fuels.