

Oil Refining, Storage and Retail in SE Europe IENE

Laurentiu Pachiu
Energy Policy Group
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Global and European outlook

- ▶ 2015 – large gasoline crack spreads lead to positive cash flows
- ▶ 2016 – margins at half of 2015, but demand growing, differentiation across regions

Market factors

- ▶ Oversupply of diesel, gasoline remains central, tightening of fuel oil, OPEC production cuts, China?

Legal/Commercial factors

- ▶ **Russia's "tax maneuver"** (reduction in export duty for crude and oil products over 2015-2017), US Border adjustment tax – What about WTO commitments?

Green Europe – but what is left behind?

Refining in Europe

- ▶ Highly efficient environment friendly refineries (remaining ones), but losing competitiveness
- ▶ Reduction in capacity
- ▶ Reduction of demand, but still excess capacity
- ▶ High cost of energy
- ▶ High Opex
- ▶ Low margins with regional discrepancies
- ▶ Diesel prevalence (favorable tax treatment)
- ▶ EU regulations & standards restrict range of suppliers – higher import dependency

Regulation becomes a burden to refining industry

Fuel Quality Directive 2009/30/EC

- ▶ 2015-Euro 6 (6% reduction of greenhouse gas emission intensity in fuel)
- ▶ By 2021-95g CO2/km
- ▶ Favors EV

Renewable Energy Directive 2009/28/EC

- ▶ Biofuels
- ▶ Indirect land use change
- ▶ Winter Package-recast-
minimum 27% renewable share
by 2030 (food & crops

biofuels 7% in transport fuel mix – road & rail - by 2020; 3.8% by 2030);

- ▶ Nevertheless, increase share of biofuels from certain feedstock
- ▶ Check sustainability and GGE saving – quite open

Directive 2010/75/EU on industrial emissions

- ▶ Best Available Technologies for refining industry-high cost and technological challenge
- ▶ Carbon leakage risk

Directive 2012/33/EU on the sulphur content of marine fuel (0.10%)

- ▶ Can European refineries match?
- ### **COM (2014) 15 final - policy framework for climate and energy in the period from 2020 to 2030**
- ▶ 40% GGE reduction; 43% (2.2% p.a.) for refining industry
 - ▶ Financial and technological challenge
 - ▶ Acquire EU-ETS carbon credits or reduce capacity?
 - ▶ EU-ETS low performance (5 EUR-March 2017)
 - ▶ Carbon leakage risk? Is free ETS

allocation the solution? What happens after 2030?

- ▶ Set benchmarks, best practices and expand standards across global industry

Directive 2014/94/EU on deployment of alternative fuels infrastructure

Joint Research Centre – Fitness Check 2015

- ▶ Fuel market imbalances
- ▶ Cost of energy
- ▶ Cost of regulation
- ▶ Location of refinery

Joint Research Centre – Fitness Check 2015

Cost of regulation-USD 0.5/barrel of processed crude

IN FACT, THE COST IS MUCH HIGHER

- ▶ Reduces investment motivation
- ▶ Generates loss of competitiveness
 - ▶ Favors Carbon leakage

- ▶ EU must set legal focus on refining industry
- ▶ Provide a role in policy framework for climate and energy
- ▶ Have a realist legal approach-coupled with global market realities
- ▶ Allow sustainable transformation

THANK YOU!