[redacted] (GROW)

From: [redacted] (GROW)
Sent: 24 January 2017 13:20
To: [redacted] (GROW); [redacted] (GROW); [redacted] (GROW); [redacted] (GROW); [redacted] (GROW); [redacted] (GROW); [redacted] (GROW); [redacted] (GROW)
Subject: FuelsEurope 23-01-17 flash report

Dear Colleagues,

Yesterday, [redacted] and I met with FuelsEurope, for an introductory meeting about the refining sector. We discussed their main interest in work that DG GROW leads or contributes to, and in particular their views on ETS negotiations. Please see below a brief read-out of the meeting for your information

Best Regards,
[redacted]

<u>**Meeting with FuelsEurope**</u>

Participants:
[redacted]- FuelsEurope
[redacted] - FuelsEurope
[redacted] - FuelsEurope
[redacted] – GROW [redacted]
[redacted] – GROW [redacted]

Discussion points

- Fuels Europe gave an overview of their industry coverage, and their previous or ongoing engagement with various parts of DG GROW on different files which impact the refining industry, including:
    - The Refining Sector fitness check (2015) – which they feel positive about and would want to keep it a living document, e.g. to be used in IAs
      In this context, the issue of ability for costs pass-through came up, and might come back up in the ETS context.
    - Energy Prices and Costs report (2016) – in particular contributed by providing data for the bottom-up approach on EIIs.
    - Automotive – they were participants in the CARS 2020 action plan, but regret to have not been accepted as participants in the next initiative, i.e, the High Level Group on Automotive Industry 'GEAR 2030'
    - Others: High level group on EIIs (C2), Air Quality (biggest regulatory cost for refineries, followed by ETS) , Reach (3rd largest regulatory cost)
- Prompted by GROW, FuelsEurope gave an overview of the sector's structural situation and their views of the future:
    - Recent trends show lower demand for products due to energy efficiency improvements, financial crisis. 15 EU refineries have closed recently out of ~100, representing roughly 9% of capacity.
    - However, limited product substitution, especially in chemical feedstock, should ensure that demand continues even in the long-term, with largest demand reductions in transport fuels.
    - Main issue for the future is to focus on competitiveness – Evidence that imports went up over the same period – (investments are taking place in the sector to e.g. improve product quality, but some investments that take place for compliance reasons have no positive impact on competitiveness or margins)
    - This is why regulation should be balanced to consider competitiveness issues

- [E.g. National Emission Ceilings Directive – FuelsEurope argues that if the strictest standards are adopted by Member States, this would re-direct large amounts of capital investments away from innovation towards compliance – Not just of the refining sector, but all industry.]

- On ETS, they are following the co-legilsator process closely, and overall:
  - Want the focus to be on full free allocation for best performers (i.e. 10% in the benchmark) and therefore want to avoid the application of the cross-sectoral correction factor (CSCF) as far as possible in Phase 4
  - Disagree with the COM assessment that a 57% auctioning share is required, and are pushing for 52% (welcome the ENVI amendments of conditional lowering to 52% to avoid CSCF)
  - Are in favour of more realistic benchmarks based on real data and dynamic allocation based on changes in activity level

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