

FuelsEurope & UKPIA– Brexit Position Paper Presenting the European refining industry’s position on critical Brexit areas

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The refining industry is a key sector for the EU, supplying vital petroleum products used in road transport, aviation, marine and heating fuels, for power generation and feedstocks for the petrochemicals industry. Over 140,000 people are directly employed in EU refineries, with around 600,000 more involved in the distribution and sale of petroleum products and in support of the sector. There is significant intra and inter UK-EU trade in petroleum products and petrochemicals (raw substance to product) which cross the English Channel several times. Complex, highly integrated supply chains have been developed within the EU customs union - 67% of petroleum product exports from the UK in 2016 were to the EU, with just under 50% of imports sourced from EU Member States.

Brexit could result in significant disruption and costs for businesses on either side of the English Channel which would be exacerbated in the event of a hard Brexit or no-deal scenario. It is for this reason that FuelsEurope and UKPIA advocate for efforts by decision makers on key policy areas that secure low barriers to cross-border trade, alongside closely aligned regulations that offer a level playing field within the region.

FuelsEurope represents 41 companies accounting for almost 100% of refining capacity in the EU, including UK refineries and UKPIA, the United Kingdom Petroleum Industry Association, represents the main oil refining companies in the UK. We share many of the concerns of other industries in relation to the economic risks associated with Brexit, and in particular a ‘hard Brexit’ or no-deal scenario. In this paper we set out our preferred negotiated outcomes. If delivered, our members would be in a position to continue to deliver high quality fuels, to all countries in the region without massive disruption of supply chains, to the benefit of consumers and users of refinery products.

No trade barriers

The refining industry operates in a global commodity market and so it is even more critical for our sector that there is frictionless, uninterrupted trade access. Any trade disruption will result in reduced overall competitiveness in comparison with other regions in the world, which may eventually impact investment

RECOMMENDATIONS

- Avoidance of disruptions to the supply chain by ensuring uninterrupted flow of trade.
- Convergence of UK rules on REACH and promote mutual recognition.
- Continued harmonization of fuel specifications.

and employment. The possible imposition of tariff and non-tariff barriers on UK-EU trade would create significant additional costs to business and lead to barriers to market access. We therefore support the closest economic relationship between the UK and EU-27 whilst preserving the EU single market.

A hard Brexit or no-deal scenario could severely disrupt refiners' supply chains. Ready access to a wide range of products in close proximity to a refinery (or downstream business) increases supply chain efficiencies and lowers costs to consumers. Part of the strength of the region's market – in a highly competitive global environment as acknowledged in the European Commission's Refining Fitness Check – is that refining companies have strongly integrated their operations across national borders within the single economic area. This is only possible where products and intermediates can move tariff-free and quickly across borders.

Competitiveness

Avoiding distortions of competition between EU-27 countries and the UK as a result of differences in the respective approaches to climate change policies is also a key concern for the refining sector. EU trade-exposed energy intensive industries such as ours already have relatively high environmental and energy cost burdens, but derive strength from common specifications, being able to meet the low emission challenge across Europe-wide assets within the 3rd largest global market for fuels.

- We therefore **support the UK's continued membership of the EU Emissions Trading System** until at least the end of Phase III. We believe the design of a new UK system and then linking it to the EU ETS (or worse: not linking it) has fewer benefits to companies and emissions reduction potential than staying within the pan-European system. Should the UK leave the EU ETS, clear transitional rules should be adopted.
- Over the long term the UK and EU should promote globally consistent carbon pricing to deliver on the UN FCC Paris Agreement and to avoid carbon leakage and loss of competitiveness.
- **EU-27 refiners and other energy intensive industries and UK competitors should contribute equally to climate targets** including aligned emission targets or other carbon emission costs.
- Policy makers must avoid differences in fuel specifications and fuel economy regulations. There should be **continued harmonization of fuels specifications** following Brexit, with the UK remaining part of the (fuel) standardization bodies and aligned with EU rules on fuel specification and fuel economy, thereby ensuring vehicle compatibility and free access to markets. This is also particularly critical for the rules organizing the mandate to incorporate renewable components in transport fuels.

There is a **considerable supply risk if the supply chain for REACH registered substances is disrupted**, with a knock-on effect of disruption not only in the supply of formulated final products such as lubricants, greases, cleaning products, paints and coatings etc. but also the supply of articles that incorporate such formulated products or substances. This would have wide-ranging impacts on product availability in both the EU and the UK.

- Therefore, **close regulatory alignment on chemicals safety policy** (and continued harmonisation) is vital. Current REACH registrations for petroleum substances held by UK-based legal entities should remain valid in the EU. Similarly, current REACH registrations held by EU-27 based legal entities should remain valid in the UK. This will avoid double registrations and substantial associated costs which would result, without any improvement to the safe use of substances, the environment or human health.
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- We believe that the **UK continuing to apply REACH or at least still being part of the EU Chemical Agency (ECHA) is the best outcome** for both sides for reasons of cost, safety and

competitiveness. Should the UK no longer apply REACH, clear transitional rules should be adopted. Other considerations:

- The UK government's 24th September 2018 Notice on REACH (www.gov.uk/government/publications/regulating-chemicals-reach-if-theres-no-brexite-deal), acknowledges that in a no-deal scenario, double (separate) registrations would be necessary, not only for UK-based legal entities, but also for any EU-27 based legal entity doing business with the UK and that the information and data package would be the same for both. In addition to being a significant administrative burden, new data sharing agreements would need to be developed in a very short period, perhaps at significant cost, since ECHA is not the owner of data used by registrants in their registration dossiers filed with ECHA;
- Post Brexit, the UK should maintain close alignment with the EU **classification, labelling and packaging regulation and requirements in REACH pertaining to safety data sheets** to ensure the free movement of goods between the UK and EU-27.

Compulsory Oil Stocks

The UK's Technical "Guidance on running an oil or gas business if there's no Brexit deal" of September 13 warned that obligated companies should consider the risks of UK compulsory oil stocks no longer being eligible to count towards EU obligations under the EU's Compulsory Oil Stock Directive in their planning for a 'no deal' scenario. The refining industry is very concerned that the end to cross-border 'ticketing' arrangements will impact companies' abilities to meet their obligations through no fault of their own and there will be a loss of ticket market flexibility across the EU and significantly increased costs.

Finally, FuelsEurope and UKPIA call on the EU and UK negotiators to engage with business and trade associations to ensure the long-standing trading arrangements between European and UK companies are not compromised with risk to thousands of jobs and millions of Euros in investment in both the EU and the UK and we request that industry be given sufficient time to enable it to make the significant and costly changes that will be necessary to adjust post Brexit.

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FuelsEurope, the voice of the European petroleum refining industry.

FuelsEurope represents with the EU institutions the interest of 41 companies operating refineries in the EU. Members account for almost 100% of EU petroleum refining capacity and more than 75% of EU motor fuel retail sales.

FuelsEurope aims to promote economically and environmentally sustainable refining, supply and use of petroleum products in the EU, by providing input and expert advice to the EU institutions, Member State Governments and the wider community and thus contributing in a constructive and pro-active way to the development and implementation of EU policies and regulations.

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UKPIA represents the interests of eight member companies engaged in the UK downstream oil industry on a range of common issues relating to refining, distribution and marketing of oil products, in non-competitive areas.

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