

2017

UPEI ANNUAL REPORT





CONTENTS

PRESIDENT'S FOREWORD	P.3
ACTIVITY REPORT	P.4
UPEI'S ENGAGEMENT ACTIVITIES 2017	P.7
STRUCTURE OF UPEI	P.15
LAUNCH OF UPEI BUSINESS PARTNERSHIP	P.16
TOWARDS A CLEANER SOCIETY - A BOILERPLATE FOR THE TRANSITION?	P.17
UPEI MEMBERSHIP MAP	P.18
UPEI PUBLICATIONS ISSUED IN 2017	P.19

PRESIDENT'S FOREWORD



The target of limiting the increase in the global average temperature "well below 2°C", as agreed in Paris at the 2015 UN Climate Change Conference (COP 21), is still the most dominant topic and influences both national and international debates about the future of the energy market. To reach this target requires severe reductions in greenhouse gas (GHG) emissions in all sectors. As many of these sectors are interconnected, all measures taken in one sector will have an effect on another. Therefore, a broad approach is needed that considers all possible options and impacts. However, forecasts for ever increasing road traffic as well as an ongoing positive outlook for the European economy as a whole, whilst positive indicators in themselves, can lead to desperation. Measures planned and executed today may fall short and will not be sufficient tomorrow.

Latest 2030, major changes need to be implemented in current energy systems whilst respecting the important "triangle" of Security of Supply, Competitiveness and Sustainability. This is easier said than done as from today's point-of-view, any alternative to conventional energy will come at higher costs. Inde-

pendent fuel suppliers have been and are acting to cover the demand of their customers with the best available solutions at an affordable price. The risk is that with tough regulations, politics will destroy a well performing market which is already responding to the climate change challenge, without having alternative solutions in sufficient volumes in place.

The transformation of the energy market touches every aspect of services and infrastructure including power generation and distribution, heating and cooling systems, energy efficiency of buildings, transportation, water and waste management, as well as the efficiency of city services such as street lighting. Next to this, further developments with digitalisation are working their way into our lives such as the internet-of-things, smart buildings, artificial intelligence, robotics and automated vehicles. These will re-define many well-known aspects of today's economy as well as consumer behaviour.

Whatever steps will be taken, they will have a tremendous effect on everybody's lives. The way we live and work will change. Many questions will arise such as: is

it still desirable or even acceptable to enjoy individual mobility? Or what kind of products will we still be able to buy and where and how will these purchases be made?

Overall energy politics and all adjacent issues will gain complexity, requiring the buy-in of all relevant stakeholders in order to achieve success. Unfortunately, the days are over when there was just one logical solution to one identified challenge. Over the last centuries the energy market has been continuously developed and optimised so there is no easy or evident solution in order to achieve the fore-mentioned targets without compromising on the "triangle" of objectives.

Independent fuel suppliers have been and are an important part of the energy market of today. At a time when major oil companies partly pulled out of the downstream market and concentrated more or less on upstream, independents stepped in and filled the gap. They have invested in the infrastructure required to supply customers' needs, especially in remoter areas. Even today this infrastructure is being upgraded in order to achieve improvements in efficiency as well as accommodate ever more performant fuels and reduce emissions. Being close to

the end-consumer means also being the first point-of-contact when it comes to questions regarding the energy of tomorrow. Independents have a strong record in their ability to change and adapt. This remains valid today and moving forward, as alternative, cleaner products are being introduced into the portfolio. However, the broad consensus which exists on the ambitious and clear targets which legislators are setting is less evident when it comes to the pathways to achieve these targets. Investments that are policy driven as opposed to market driven also carry a higher risk. For independents, the risk increases even further when consumer demand is not yet evident.

The energy transition needs revolutionary results, but an evolutionary process. This means recognising and capitalising on past investments as well as investing in new technologies. Productivity has and always will remain a key priority. To make this productivity cleaner is in everybody's interest. For this to happen, we need a policy dialogue and framework that ensures it can be everybody's business.

«
The energy transition needs revolutionary results, but an evolutionary process
 »

Thomas Johannsen

ACTIVITY REPORT 2017

UPEI'S CONTRIBUTION TOWARDS EU POLICIES

AN EU POLICY FRAMEWORK FOR 2030

Creating an effective legislative framework for 2030 has been a priority for the European Commission. In the energy field, this culminated in the publication of the “Clean Energy Package for All Europeans” in November 2016 with a comprehensive set of legislative proposals covering renewable energy, energy efficiency, the energy performance of buildings and Energy Union Governance, to name but a few. This

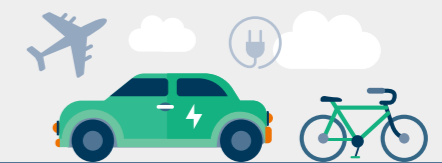
package is aimed at ensuring that the EU is able to achieve its 2030 and 2050 targets on Greenhouse Gas (GHG) reduction whilst remaining competitive. It goes hand in hand with the Clean Mobility Package published in May and November 2017 which also addresses initiatives to improve air quality and congestion, road charging, safety and social conditions as well as measures to promote new mobility services and solutions.

LEGISLATIVE PACKAGES: CLEAN ENERGY AND CLEAN MOBILITY



Clean Energy Packages

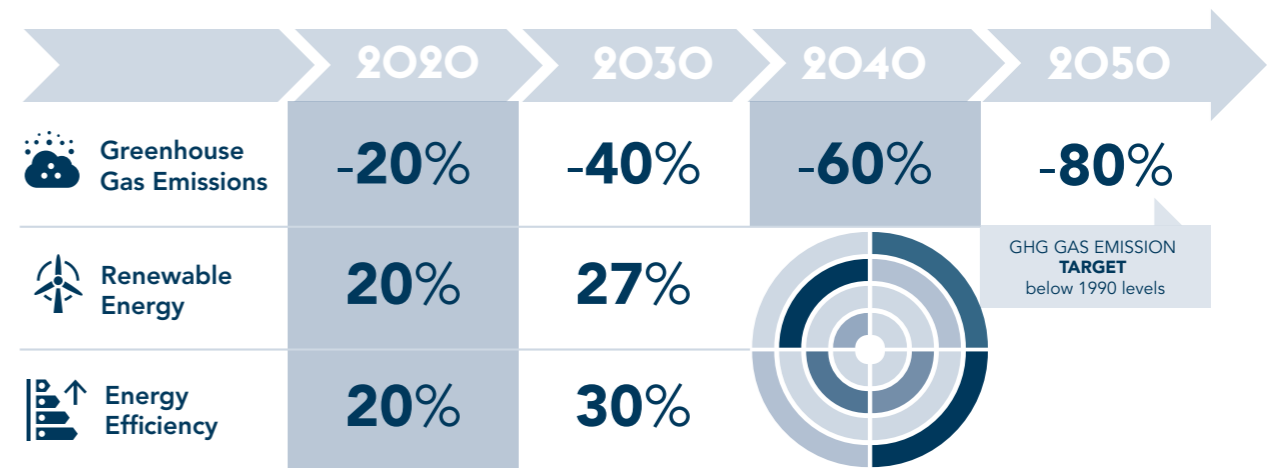
- Promotion of renewable energy
- Energy Efficiency
- Energy Performance of Buildings
- Governance of the Energy Union
- GHG reduction: Emissions Trading/ Effort Sharing
- Electricity Market Design
- Ecodesign



Mobility Packages

- Action Plan for Deployment of Alternative Fuels Infrastructure
- Enhanced Social Legislation in Road Transport including driving and rest periods
- Promotion of clean and energy efficient vehicles in public procurement
- CO₂ emission standards for cars and vans
- Smarter Road Infrastructure Charging & Systems
- Clean Mobility Battery Initiative

ENERGY UNION TARGETS





Against this background, in November 2017, the European Commission issued its Third Report on the State of the Energy Union, tracking progress towards building the Energy Union and the transition to a low-carbon economy. This report confirmed that globally, the EU is on target to reach its 2020 targets for GHG emissions cuts, energy efficiency and renewable energy. The cost of renewable energy is falling and renewables are attributed with having saved an estimated €16 billion in fossil fuel imports in 2015. The trend of decoupling GHG emissions from GDP has continued, with an overall increase in GDP of 1.9% against an overall emissions decrease of 0.7% in 2016, although transport remains to be a sector of increasing emissions. The European Commission also reported a decoupling of economic growth and energy consumption largely.

UPEI's main priority in 2017 was to ensure close engagement with decision makers and other important stakeholders on the wide-ranging legislative package, in particular those aspects which related to key areas of the fuel supply business. These included the setting of new obligations on fuel suppliers with regards to the supply of renewable energy as well as delivering further on energy efficiency both in the transport and heating sectors. Through its advocacy efforts, UPEI was engaged in meeting with a wide range of actors, whether in the European Commission, European Parliament or Council, emphasising principles such as the need for:

- » a level playing field and equal market access for all available technologies and actors in the transition towards a low-carbon economy

- » a policy framework which facilitates the smooth functioning of the internal market and avoids market disruptions
- » stable and future proof legislation which stimulates and supports new and ongoing innovation and investments.



TRANSPORT & FUEL QUALITY

UPEI supports the European Union's efforts to bring down emission in the transport sector. Independent fuel suppliers have a solid track record in reducing GHG emissions through the supply of alternative fuels as well as through efficiencies gained through the optimisation of the supply chain.

The European Commission had launched its Communication on a European Strategy on Low-Emission Mobility in 2016, to which the European Parliament responded with the publication of its report in 2017¹ calling for more ambitious measures. The Parliament called for action to be focused on intensifying efforts to reduce emissions in all transport sectors. In this context, UPEI's priority was to defend a holistic and technology neutral approach, by allowing all alternative fuels, including sustainable and advanced biofuels, natural gas (both compressed (CNG) and liquefied (LNG)) as well as liquefied petroleum gas (LPG) and hydrogen, to be recognised for their potential in

¹ European Strategy for Low-Emission Mobility (2016/2327(INI))



ART Fuels Forum

In 2017 UPEI was granted observer status in the new Alternative Renewable Transport (ART) Fuels Forum created by the European Commission. The Forum is designed to create an open dialogue with all stakeholders aiming to improve communications with decision and policy makers in the EU Institutions in view of accelerating the deployment of advanced alternative and renewable fuels in transport.

contributing to the decarbonisation of the transport sector. UPEI welcomes this recognition in the strategy and supports the call that the European Parliament made for life-cycle analysis of the emissions in order to guide manufacturers towards optimal solutions. It is necessary to ensure that upstream and downstream emissions do not erode the benefits related to the improved operational energy use of vehicles.

— Recast of the Renewable Energy Directive

UPEI's agenda in 2017 was dominated by the proposal for the recast of the Directive on Renewable Energy², as it progressed through the legislative process in both the European Parliament and the Council.

Objectives of the European Commission's Proposal: The European Commission's proposal is designed to provide the framework for delivering an increased share of renewable energy up until 2030. An overall EU 2030 target of 27% was proposed as the share of renewable energy in the EU's gross final consumption of energy, with various sub-targets notably in the transport sector. In contrast to the existing Renewable Energy Directive, the Commission's proposal focussed not only on how the transport sector can contribute to this target, but also the heating and cooling sector - building on the "Heating and Cooling Strategy" which the European Commission had published in 2016. This was translated into a proposal for a non-binding annual 1% increase at individual Member State level in the share of renewables for heating and cooling.

With regards to transport, UPEI welcomed the European Commission's proposal to translate its objectives into a single legislative framework for renewables, replacing the current situation whereby transport targets for 2020 are set in two separate directives: the Fuel Quality Directive as well as the Renewable Energy Directive. This improved legislative coherence is essential for reducing administrative burden.

However, some aspects of the Commission's proposal did raise concerns about much needed legislative stability and creating a positive investment climate, notably in the biofuels sector which continues to be the main deliverer

² COM(2016)767 final |

UPEI'S ENGAGEMENT ACTIVITIES 2017

20 BILATERAL MEETINGS with European Parliament

10 BILATERAL MEETINGS with European Commission

13 TECHNICAL STAKEHOLDER MEETINGS (European Commission)

23 MEETINGS WITH INDUSTRY PARTNERS

4 JOINT INITIATIVES WITH INDUSTRY PARTNERS (ACEA/ACEM/ECFD/EHI/Eurofuel/FuelsEurope)

22 CONFERENCES

22 POLICY DOCUMENTS ISSUED

of GHG emission reductions in transport today. With its proposal to phase out sustainable, crop-based biofuels only 2 years after having adopted the iLUC Directive³ (capping the contribution of these biofuels at a level of 7% of the final consumption of energy in transport in 2020), there were fears that this would have serious consequences for the availability of biofuels – both first generation and advanced biofuels where production levels are in their infancy.

5 Key Objectives for UPEI: Independent fuel suppliers are directly affected by the Directive, being subject to the fuel supplier obligations. UPEI's engagement in this process has been predominantly to ensure that independent fuel suppliers are in the position to fulfil these legislative obligations, but also to deliver on their commitment to contribute towards the lowering of emissions in transport. This requires a level playing field between actors as well as between member states in the way that legislation is implemented. UPEI's principle recommendations were therefore designed to:

1. enable independent fuel suppliers to continue to supply their customers with a diversified mix of products, ensuring competition in the market
2. ensure that legislation safeguards a level playing field across the EU for the cross border movement of energy products, including liquid fuels, thus contributing to greater energy security
3. support a regulatory convergence between Member States in order to safeguard a single market and avoid artificial and costly barriers to trade
4. strengthen the legal framework in order to ensure a stable, long term vision in order for European businesses, especially SMEs, to make the necessary investments.
5. aim for targets which are balanced and realistic in terms of feasibility as well as level of ambition

During the course of 2017 UPEI has advocated extensively with the three institutions, working closely and coordinating with other stakeholders and industry sectors. The process was complicated by the fact that within the European Parliament, main competence for the legislative proposal was divided between the energy (ITRE) and environment (ENVI) committees, multiplying the number of interlocutors. In general, the concerns of UPEI are better reflected in the current position of the Member States who recognise the need for ambition but also coherence with past policies and market realities.

The current status of this dossier is that the European Parliament and the Council have each adopted their views on the European Commission's proposal, with substantial differences between the three institutions. Interinstitutional negotiations are taking place. The Bulgarian Presidency hopes to reach a preliminary conclusion during its mandate.

— Directive on the Deployment of Alternative Fuels Infrastructure

Fuels/Vehicle Compatibility - Graphical expression for consumer information

Under article 7 of the Directive on the Deployment of Alternative Fuels Infrastructure (DAFI)⁴ Member States are required to ensure information on fuel identification is available on motor vehicles and at refuelling/recharging points. This provision is being implemented through the new EN 16942 European Standard released by the European Standardisation Committee (CEN) in 2016, which introduces harmonised graphic symbols for liquid and gaseous fuels to be displayed on vehicles (and manuals) and at dispensers and refuelling points. The symbols have been designed to indicate different types of fuels such as petrol/diesel/gaseous and will appear on labels which will be required on all new vehicles and at retail stations from October 2018.

Independent Fuel Suppliers represented by UPEI run approximately 21,000 of Europe's retail stations and therefore have a keen interest to ensure that legislation affecting retailers is implemented effectively and cost-efficiently.

In order to ensure harmonised implementation of the new standard across the internal market and avoid customer confusion, UPEI has joined forces with the European Associations ACEA (automobile manufacturers), ACEM (motorcycle manufactures) and FuelsEurope (refining industry), to coordinate efforts and communications on the introduction of these labels. This industry led initiative demonstrates the importance attached to ensuring the effective and harmonised implementation of this measure between the different actors and at Member State level and a firm



commitment to ensure that consumers have the necessary explanations when encountering these new labels. Several joint actions were carried out during 2017 with the aim to prepare two separate communications to operators and to consumers, to explain the new measures and anticipate a number of questions that may arise. These communications will be made available throughout the EU before October.

Fuel Price Comparison

Article 7.3 of the DAFI requires the development of a fuel price comparison (FPC) system for alternative fuels to be displayed at service stations. During 2017, UPEI has been intensively engaged with the European Commission to address how this can be implemented cost-effectively and according to a methodology which has the interests of the consumer at its centre.

Initially, the German Energy Agency, DENA, was commissioned to carry out a study to identify possible options for a common methodology for the FPC. In its report published in January 2017⁵, 4 different options were analysed, and two main options identified: €/100km and €/petrol

litre equivalent. The report also promoted display options based on the totem, although the cost implications were not fully documented.

UPEI has strongly argued for a methodology that is easy to understand and comprehensive, including information on important parameters such as energy content and vehicle costs and performance, in order to provide real value to the consumer. For the consumer, fuel consumption

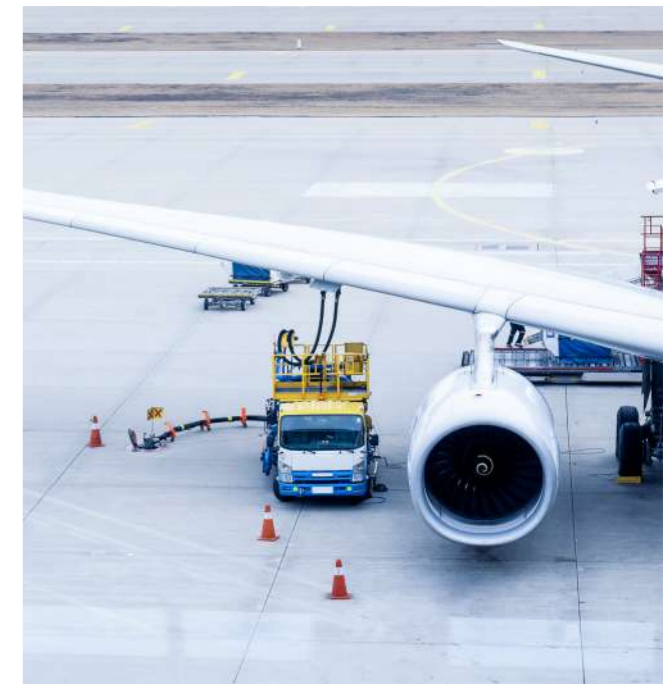
« The positive contribution that evolving liquid fuels can make to an economically and socially fair energy transition must be recognised. »

Yvonne Stausbøll,
UPEI Secretary General

is a key aspect that needs to be considered, not just the price at the pump and for this reason, UPEI favoured the €/100km methodology as the most appropriate. This methodology was subsequently endorsed by a study carried out by FIA⁶ to identify consumers' preference.

With a view to achieving proportionality and cost-effectiveness, UPEI also proposed that the display of the FPC should envisage a simplified display option at the retail station, with recourse to an online tool addressing the need for more complete consumer information.

Following the completion of these two studies, the Commission published its draft implementing regulation in March 2018, opting for a methodology based on €/100km (based on average quarterly fuel prices). Whilst no prescriptive measures on display are included, UPEI's proposal for an online tool to inform the consumer on the FPC



has been included as an option for Member States to use in order to facilitate comparisons. It also highlights that the tool could provide the opportunity to obtain individual information for all or most models of vehicles existing in the market.

UPEI welcomes the Commission's draft proposal as a successful conclusion to extensive consultations and a positive example of cooperation between policy makers and industry. The proposal is due to be adopted in May 2018.

— Fuel Quality Directive (FQD)

The Fuel Quality Directive lays down, amongst others, the rules to calculate and report the GHG emissions of fuels and other energy from non-biological sources. It includes a 2020 target on fuel suppliers to reduce by 6% the GHG intensity of the fuel and energy supplied.

Directive EU 2015/652 lays down the rules on how to calculate and report the GHG emissions of fuels, in order to meet the obligations under the Fuel Quality Directive⁷. Under the draft regulation on Energy Union Governance⁸, the European Commission has proposed certain amendments to the Fuel Quality Directive and the Implementing Directive 2015/652 that will ensure that required reporting is verifiable and proportionate. The draft regulation is currently the subject of interinstitutional negotiations in the co-decision legislative procedure.

Evaluation of the FQD

As part of the Commission's Regulatory Fitness and Performance (REFIT) programme, the FQD was subject to an ex-post evaluation in order to examine its actual implementation, relevance, effectiveness, efficiency, coherence,

³Directive (EU) 2015/1513 | ⁴Directive 2014/94/EU

⁵Final Report, dena – January 2017 | ⁶Fédération Internationale de l'Automobile | ⁷Directive 98/70/EC | ⁸COM (2016) 759 final



and EU value added. Article 7a related to GHG emission reduction was excluded from the evaluation because it is not yet fully transposed into national legislation. Articles 7b to 7e relating to the sustainability of biofuels were also excluded because they were the subject of an earlier evaluation⁹.

The study¹⁰ has concluded that overall, the FQD is contributing to reducing pollutant emissions in transport and that the costs are outweighed by the health and environmental benefits. It provides fuel specifications that are compatible with engine standards, avoiding disproportionate costs via derogations. Nevertheless, the study identified that whilst the FQD has been promoting a single market, it does not lead to full harmonisation. This is a point that UPEI has regularly raised, warning against the risks of regulatory fragmentation and inconsistencies among Member States, especially on limits to the blending of biofuels. UPEI believes in the importance of monitoring the development of the internal market for

transport fuels and the need to bring greater transparency to the hidden costs and barriers that exist due to lack of harmonisation between Member States. A clear example is provided in the UPEI Biofuels Matrix.

— Payment Services Directive

Since the entry into force of the Directive on Payments Services in the Internal Market¹¹, UPEI has been working through its membership at national level to ensure a harmonious transposition of the directive in each Member State. Whilst fuel cards are exempt from the scope of the directive, two preconditions need to be fulfilled:

- » Limited Network: the card may only be provided to a dedicated group of customers
- » The goods covered by the fuel card need to be vehicle related

Due to the cross-border nature of the road transport sector and cross-acceptance of fuel cards by different providers, harmonious transposition and consistent regulatory treatment by individual Member States is essential for the smooth functioning of the internal market in this area.



OIL HEATING

— Clean Energy for all Europeans

The heating and cooling sector was in the centre of attention of policy makers in 2017, as several proposals issued by the European Commission, revising the directives on Renewable Energy¹², Energy Efficiency¹³ and Energy Performance of Buildings¹⁴, affected the sector. UPEI welcomed and worked together with the European Parliament and the Council to ensure that that the proposed legislative framework remains inclusive – allowing all parties to contribute towards achieving the EU targets on energy efficiency, GHG emissions savings and renewables –promotes innovation and facilitates consumer action. The discussion, notably on the targets for energy efficiency and the promotion of renewable energy in the heating and cooling sector to be achieved in 2030 is still ongoing between the three institutions. There are significant divergences in levels of ambition between the institution with the most ambitious proposal defended by the European Parliament in contrast to the Council and Commission, who have adopted a more progressive approach, recognising the challenges at Member State level notably in the heating sector. The potential for the existing building stock to achieve GHG emissions as compared to new buildings remains a particular challenge.

Fuel Quality Progress Report

As part of the 2nd Report on the State of the Energy Union, the latest Fuels Quality Progress Report was published by the European Environmental Agency. It concludes that there were very few deviations from specifications for petrol and diesel as specified in the FQD. An improvement in the reporting obligations by Member States was also noted, resulting in more robust sampling of fuels.

and EU value added. Article 7a related to GHG emission reduction was excluded from the evaluation because it is not yet fully transposed into national legislation. Articles 7b to 7e relating to the sustainability of biofuels were also excluded because they were the subject of an earlier evaluation⁹.

— Protecting Drivers Rights

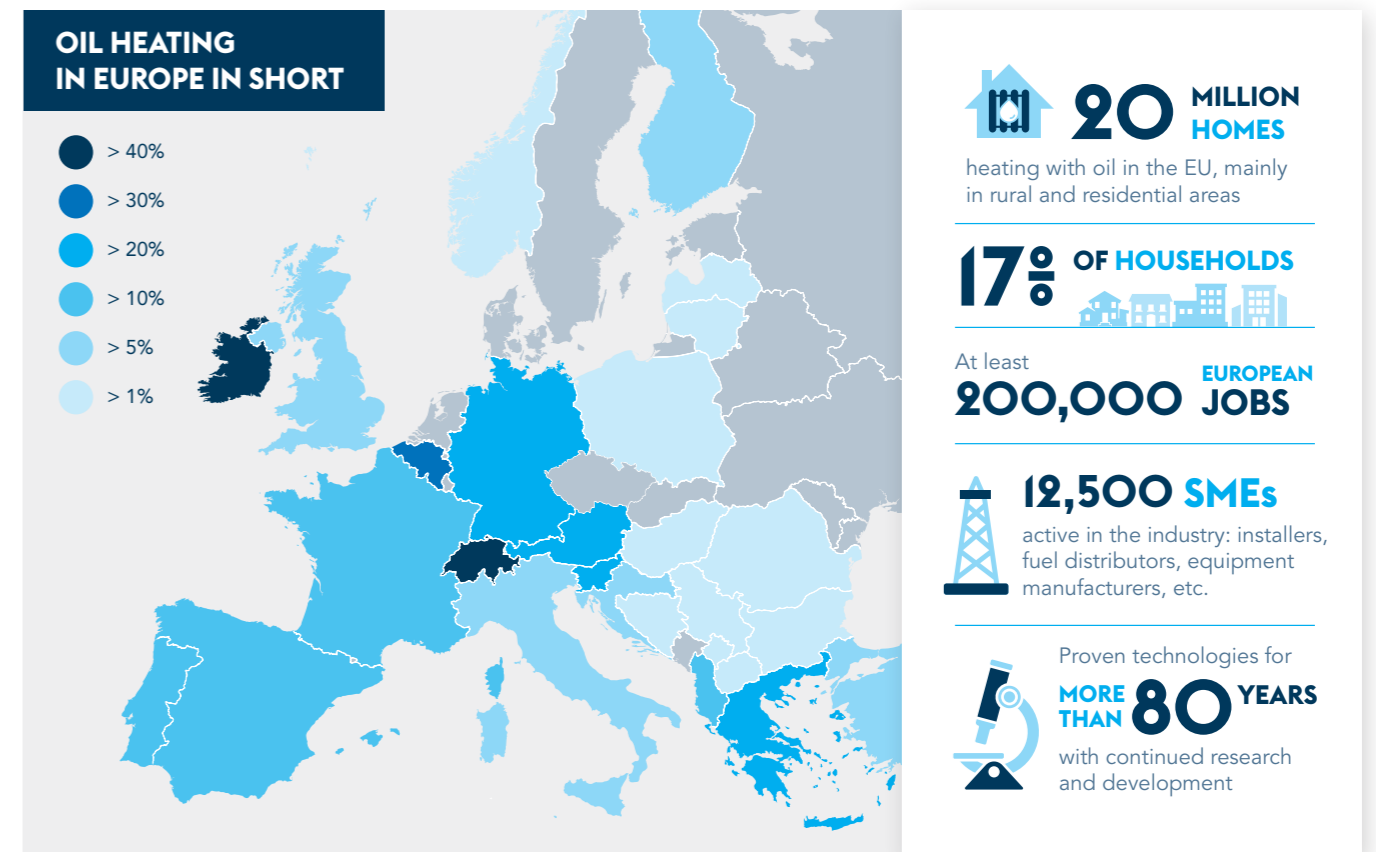
Delivery of heating oil requires specific skills and conditions, as drivers are not only required to be well trained in the movement of hazardous goods, but also in their effective transferral from the vehicle to the building concerned. This is relevant in the context of driving times and rest periods as well as drivers training and qualifications. The specificity of off-grid heating fuel distribution needs to be taken into account in these regulations. UPEI has been supporting the ECFD (European Confederation of Fuel Distributors) on two particular legislative proposals to address the specific needs of the sector, with a view to improving coherence between different regulatory requirements and guaranteeing high standards in safety and consumer satisfaction, whilst safeguarding basic working conditions and reducing administrative burden and costs.

Training of HDV drivers: UPEI and ECFD welcome the institutional agreement on the European Commission's proposal to review and update the Directive 2003/59/EC on the qualification requirements for drivers of road vehicles (CPC Directive). The agreement addresses the concerns of both associations in that it allows for the counting of 2 periods of specialised mandatory training (under ADR for hazardous goods) towards the 7 period CPC training requirements, improving the relevance of the training and avoiding duplication. This will also reduce the administrative and financial burden of businesses, typically SMEs notably in the heating oil delivery business.

Driving times and rest periods: Regulation 561/2006 regulates driving times and rest periods for professional drivers. This important legislation, however, does not recognise that off-grid heating fuel distribution is typically locally based with short distances and requires, on average, more than 15 minutes to allow for the refilling of customers' tanks. This means that fuel distributors can spend more time outside the cabin to deliver the energy than behind the wheel of their truck. UPEI has been actively supporting the ECFD in advocating for the legislation to recognise the specific nature of heating fuel deliveries (within a 100km radius), and to allow a more flexible approach, in particular with regards to the granting of derogations typically needed in winter time, when the combination of peak demand and degraded weather conditions can lead to avoidable delivery delays due to forced rest times, in a sector where long periods of continuous driving are uncommon.

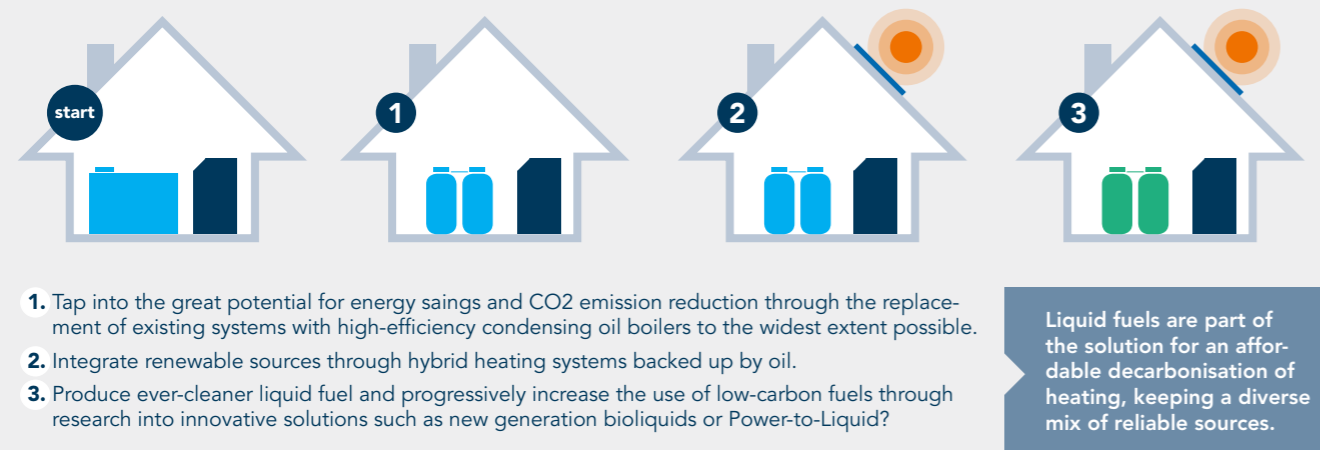
— Heating with Liquid Fuels

UPEI, together with three European Associations representing the heating oil supply chain: Eurofuel (European Heating Oil Association), FuelsEurope (the refining industry) and ECFD (European Confederation of Fuel Distributors), representing the whole supply chain, joined forces to produce a guide to oil and other liquid fuels for heating in Europe. This brochure also informs on the potential of these fuels to contribute to the EU's energy and



⁹SWD(2016) 416 final | ¹⁰SWD(2017) 179 final | ¹¹Directive 2014/94/EU | ¹²COM (2016) 767 final | ¹³COM (2016) 761 final | ¹⁴COM (2016) 765 final

PERSPECTIVES FOR LIQUID FUELS IN HEATING ON THE WAY TO 2050



1. Tap into the great potential for energy savings and CO2 emission reduction through the replacement of existing systems with high-efficiency condensing oil boilers to the widest extent possible.
2. Integrate renewable sources through hybrid heating systems backed up by oil.
3. Produce ever-cleaner liquid fuel and progressively increase the use of low-carbon fuels through research into innovative solutions such as new generation bioliquids or Power-to-Liquid?

climate policy goals, providing a reliable heat supply for today and tomorrow. The brochure, "Heating with Liquid Fuels"¹⁵, explains the sector in facts and figures and outlines the development perspectives towards 2050. These perspectives are presented in 3 key phases, maximising energy efficiency, integration with renewable sources through hybrid systems and ultimately the development of ongoing research into new low carbon fuels, as demonstrated above.

— Technology Neutrality and Promoting Innovation

UPEI's efforts continued to strive for a technology-neutral, objective and evidence-based approach to address the challenges in the heating sector. There is a need to maintain a diverse mix of reliable sources of energy for the heating sector, in order to ensure that all consumers can be served with reliable and affordable heating, particularly in those regions where no alternative exists.

« It is crucial to maintain a varied energy mix and a free choice of technologies by citizens. »

Yvonne Stausbøll,
UPEI Secretary General

Discriminatory measures that do not take account of the achievements of the oil heating sector in delivering on efficiency and GHG emission reduction also risk impeding ongoing research and innovation. This is striving to develop even more performant solutions with new liquid fuels for the future, which are carbon neutral and maintain the benefits of efficient storage and distribution, as well as the autonomy of the consumer. It should be recalled that modern oil heating technologies have CO₂ emissions levels comparable to gas over the whole life cycle.

A joint action was undertaken by UPEI, Eurofuel, FuelsEurope, ECFD and EHI when a ban on heating oil was notified to the European Commission by the region of Lower Austria. The coalition argued in favour of less discriminatory measures that could be used to achieve the same results as well as the fact that the proposed ban goes against the free movement of goods and is not proportionate or technologically neutral. In Italy, the Lazio Region pursued a similar policy under its "Air Quality Plan" but thanks to the successful efforts of the Italian association: Assopetroli-Assoenergia with the support of UPEI, the measure was withdrawn.



¹⁵ www.ypei.org/library

TAXATION

— Energy Taxation Directive

2017 saw the publication of a roadmap by the European Commission for the evaluation and fitness check of the Energy Taxation Directive (ETD), focusing on identifying the possibilities for simplification, reducing regulatory burdens and identifying and calculating regulatory benefits and savings from the enforcement of the Directive. This Directive sets the legislative framework on energy taxation rules and aims to ensure a harmonised approach between Member States to avoid double taxation and reduce the risk of distortion of trade and competition in the field of energy. In particular it sets minimum levels of taxation for energy products used as motor or heating fuel and for electricity.

UPEI welcomes the review of this directive and the opportunity to participate in the consultation process

through an ongoing study launched by the Commission in this respect. This study will feed into the overall evaluation of the ETD. A discussion document is expected to be presented by the European Commission to the Council by the end of 2018.

As fuels in the motor and heating sectors are diversifying in the context of the ongoing energy transition, it is important that the approach to taxation keeps abreast of these developments and that rules are clearly established that are conducive to the development of the market without distorting it. The impact of national taxation policies on consumer choice is very evident. This has been clearly seen in the biofuels sector which UPEI has analysed (see the UPEI Biofuels Matrix). UPEI, therefore, welcomes this evaluation as an opportunity to review the taxation framework which has such a direct impact on the fuel supply sector.

— EMCS – Excise Movement and Control System

In the European Commission's work programme 2017, it announced the revision of the Excise Movement and Control System (EMCS)¹⁶ with a view to align and ensure coherence between customs and excise legislation, and address the need for uniform application of EU legislation. This is a key piece of legislation governing the way that excise goods are monitored electronically during transport within the EU, between warehouse keepers and registered traders. The EMCS is based on a system of electronic Administrative Document (e-AD).

UPEI maintains a close and regular dialogue with the European Commission on the EMCS, in order to address practical problems that can arise, in particular those due to the specificity of the mineral oil sector. The revision of the EMCS provides the opportunity to address these in a more comprehensive matter, which UPEI welcomes. In this respect, UPEI collaborates with FETSA (the European Tank Storage Association) and FuelsEurope (representing European refining companies) – thus participating in a comprehensive platform of associations involved in the downstream mineral oil sector. The prime objective is to ensure that the new proposal which is expected in 2018 will contribute to improving efficiency and reducing the administrative burden for both Member States and economic operators as well as address distortions in the internal market.

¹⁶ Directive 2008/118/EC | ¹⁷ Directive 95/60/EC

— Gas Oil and Kerosene - Fuel Marker

The Directive on the Fiscal Marking of Gas Oils and Kerosene¹⁷ aims to prevent the improper use of certain petroleum products which are subject to variable excise duties. It requires the application of a fiscal marker to gas oils and kerosene (other than jet fuel) which are exempt from excise duty or are subject to a rate that differs from the standard applicable rate. The marker consists of a chemical substance (Solvent Yellow 124). In addition, member states may add a national marker or colour in order to easily identify the product. An evaluation of this directive is ongoing which is, in particular, seeking to address the efficiency and cost-effectiveness of the directive. In parallel, the efficiency of the current chemical marker is being examined as this is subject to review latest 2021. The European Commission has launched a study to identify alternative products suitable for use as a fiscal marker in gas oils and kerosene in conjunction with the Joint Research Centre (JRC). Alternatives have been proposed, however, these are now subject to evaluation with regards to environmental and human health safety by the Scientific Committee on Health, Environmental and Emerging Risks (SCHEER). UPEI has also raised the importance of assessing the impact on testing equipment at the level of economic operators, if a new chemical marker is introduced.

In the context of this evaluation, UPEI has expressed its views based on experience of market operators. It has also raised concerns with regards to the fact that the application and scope of the colour marker is not regulated in a harmonised manner across the EU, creating barriers to



cross-border movements of marked products due to the fact that different colour markers are used and not always mutually recognised by Member States. This constitutes an obstacle to the proper functioning of the internal market which is one of the aims of the directive. Results of the analysis looking to the implementation, application and effectiveness of the provisions of the Directive were published on 31 January 2018.

— The Union Customs Code

Two particular aspects have been addressed in the context of the Union Customs Code by UPEI:

Classification of Marine Bunker Fuel – DMA

The market for marine bunker fuels (DMA) continues to suffer from a lack of homogeneity between Member States in the way that the fuel is classified, using different customs tariff numbers with the possible consequences of imposition of excise duties. There is an inconsistency between the global ISO standard and the application of the EU combined nomenclature (CN). Based on its physical characteristics, DMA should be considered as a gas oil. However, according to the CN code it can be classified as either gas oil or heavy fuel oil, with different tax implications. UPEI has been actively seeking solutions through dialogue with individual Member States as well as with the European Commission to address this anomaly which has costly implications on economic operators and undermines the internal market.

Rules on Accounting Segregation under Customs Warehousing

Under the Union Customs Code, proposals have been discussed to amend provisions in order to avoid unjusti-

fied import duty advantages in case of common storage of community and non-community goods with accounting segregation. UPEI has been advocating for an approach that guarantees a level playing field between industry sectors where products can be stored separately due to their physical characteristics and those that cannot store them separately (e.g. the mineral oil sector).



COMPULSORY OIL STOCKS

The Compulsory Oil Stocks Directive¹⁸ (CSO) requires Member States to hold stocks of crude oil and petroleum products equating to 90 days of average daily net imports. These reserves are generally held by oil companies, including independent fuel suppliers, and national agencies, contributing significantly to Europe's security of supply.

Following the public consultation on the evaluation of the CSO directive, the European Commission has been working on an impact assessment (IA) on how to address the key concerns identified in the evaluation. UPEI had contributed to the consultation process and attended the stakeholder validation workshop on the consultants' IA findings, held in November 2017. Four key aspects of the directive were addressed: the naphtha yield rule, how the 10% deduction is applied on the level of emergency stocks, the possibility of aligning the starting date of the stockholding obligation with the IEA and clarifying the directive's rules on holding cross border stocks. Once the consultants' report is finalised, it is expected that the Commission will issue its proposal for revising the directive during 2018.

¹⁸Directive 2009/119

STRUCTURE OF UPEI

UPEI PRESIDING BOARD AND COMMISSIONS

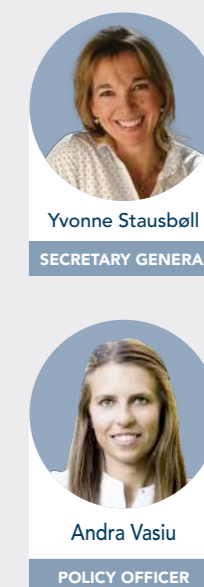


2017 saw the creation of 4 UPEI Commissions to facilitate the exchange of information between the membership, organised according to business activities. Each Commission is chaired by one of the Vice Presidents and typically meets 2 times per year. The Commissions are designed to complement the technical work that is carried out by experts from within UPEI's membership as well as technical working groups.

EXPERTS



UPEI SECRETARIAT



UPEI BUSINESS PARTNERSHIP



BE PART OF THE EUROPE-WIDE INDEPENDENT FUEL SUPPLIERS' NETWORK

UPEI BUSINESS PARTNERSHIP

In 2017, UPEI launched the UPEI Business Partnership as a new venture, expanding its network to include forward thinking companies who are directly or indirectly involved in the fuel supply business and who desire to shape the future. The Business Partnership provides a forum through the high level Business Partners Panel, for like-minded companies to discuss the challenges and opportunities of the transition to a low-carbon economy.



1st meeting of the High Level Business Partners Panel, Brussels

UPEI believes that the Business Partnership can be a mutually beneficial way to tackle the challenges of Europe's energy transition.

UPEI's Business Partners



FUEL CONFERENCE : TOWARDS A CLEANER SOCIETY A BOILERPLATE FOR THE TRANSITION?

TALLINN, ESTONIA • 23 MARCH 2017



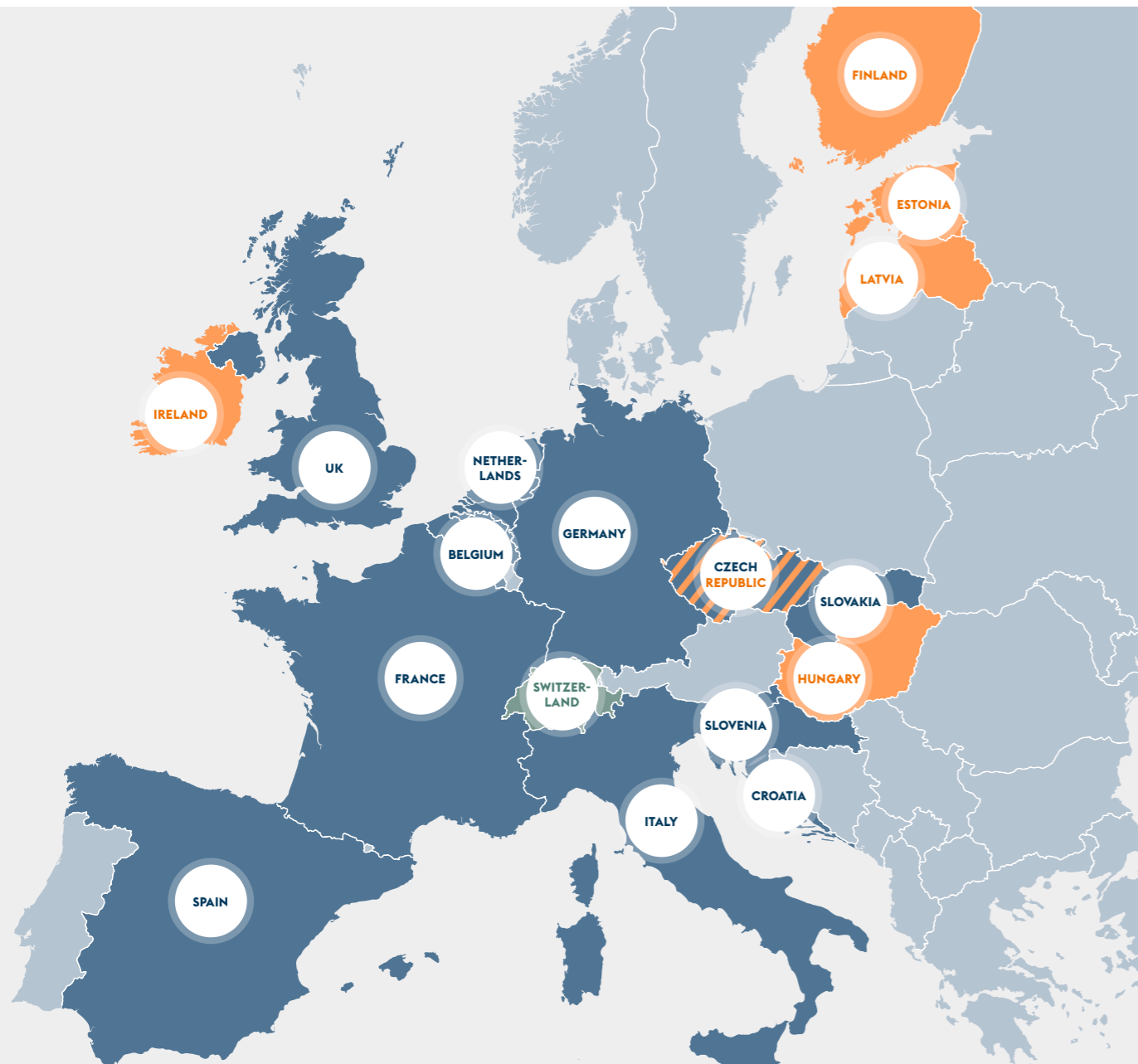
Thierry De Meulder, President of UPEI (2014-17) and Mihkel Härm, Secretary General, WEC Estonia

UPEI jointly with the World Energy Council Estonia organised the Fuel Conference "Towards a Cleaner Society – A Boilerplate for the Transition?" on the oil sector's contribution towards a cleaner society. The conference brought around the table representatives from the different sectors offering political, scientific and technical points of view and solutions on the challenges in decarbonising the transport sector. The World Energy Council presented three energy scenarios for 2060 with a focus on transport, concluding that limiting global warming to no more than a 2°C increase will require an exceptional and enduring effort. The panel offered an honest debate on biofuels and prospects for ethanol, gasoline and diesel from real-world emissions testing. The role

of petroleum fuels in the future of transport; the potential of hydrogen as a zero emission solution in transport; and the future of electric transport were also discussed. Attending the conference were policy makers and European fuel suppliers and companies from the transport and energy sectors as well as other stakeholders.

It was agreed that effective reduction of GHG emissions and air pollutants from transport requires a holistic approach. Concluding the conference, UPEI President, Thierry De Meulder, stressed that whilst the transition to a cleaner society is complex and challenging, its success is dependent on the will and ability of ALL actors to engage and contribute.





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UPEI PUBLICATIONS ISSUED IN 2017

- UPEI Brochure: Who we are
- UPEI Business Partnership
- Heating with Liquid Fuels in cooperation with ECFD, Eurofuel and FuelsEurope

STATEMENTS

- JANUARY**
Joint Letter with ACEA, ACEM & FuelsEurope on the introduction of fuel identifiers in the EU
- APRIL**
Setting the framework for renewables fuel in transport and heating (Joint Statement with ECFD)
- JUNE**
Recommendations for the Revision of Directive 2003/59/EC on the Qualification Requirements for Drivers of Road Vehicles (Joint Statement with ECFD)
Fuel Price Comparison (FPC)
- NOVEMBER**
Setting the framework for renewables fuel in transport and heating
Press Release: Heating with Liquid Fuels
- DECEMBER**
Press Release: UPEI elects new Presiding Board

UPEI RESPONSES TO EU PUBLIC CONSULTATIONS

- MARCH**
Revision of the Clean Vehicle Directive



2017 UPEI ANNUAL REPORT



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