
UPEI Position Revision of the EU Emissions Trading System and the EU Effort Sharing Regulation

Context

Independent fuel suppliers have experienced a substantial impact on their business activities, as COVID-19 outbreak hit harshly fuels demand across Europe. This unprecedented challenge represents a pivotal opportunity to **reshape the energy sector** as we know it. To achieve this goal, an ambitious and stable policy framework is crucial. UPEI members are fully committed to provide flexible, affordable, and clean energy to consumers in order to meet Europe's short- and long-term climate objectives.

Relevance of the independent fuel suppliers' sector

UPEI members are in a unique situation within the fuel supply market. Today's individual fuel suppliers bring expertise, sound consumer knowledge and an established, comprehensive infrastructure which already delivers low carbon, energy efficient products in an affordable and competitive manner. They have a **strong track record in contributing to the EU climate protection objectives**, being the first to supply renewables to Europe's fuel market as early as 1992, showing their commitment to and flexibility in embracing new policies and delivering new solutions.

Independent fuel suppliers are not producers of liquid fuels and therefore have the freedom to diversify the products that they supply. However, they need **regulatory predictability and consumer demand as a guarantee for investments** in renewable and low carbon fuels.

General comments on the EU ETS reform and ESR reform

In general, UPEI supports the EU ETS as a market-based and cost-effective tool to reduce GHG emissions, in light with the EU carbon neutrality objective. We see the ETS and ESR as complementary measures to address climate change.

In principle, the ETS applies to the organisations directly responsible for the actual CO₂ emissions. Such an approach should be taken when extending the ETS to the maritime sector, by subjecting shipping companies to ETS obligations, in line with the existing Monitoring, reporting and verification (MRV) Regulation. However, we understand that the same approach cannot be fully implemented in the road transport and building sectors, given the very high number of emitters.

Concrete suggestions regarding the prospect of expanding the use of emissions trading to buildings and road transport.

UPEI calls upon the European Commission to give careful consideration to the following issues during the impact assessment and preparation of policy proposals:

1. A coherent policy framework

The fuel supply sector currently faces a patchwork situation. Indeed, it is subjected to a number of requirements set out by different regulations, which however aim at diverging objectives and are materialised in different obligations. Inconsistencies can be demonstrated in the particularly problematic relationship between the Fuel Quality Directive (FQD) and the Renewable Energy Directive (REDII), the incomplete support of carbon neutral solutions under the CO₂ Standards for Vehicles and the Energy Taxation Directive (ETD). For more details, we invite the Commission to explore the *UPEI's Paper on Regulatory Inconsistencies*, which suggests means of fixing a number of these inconsistencies.

Extending the use of emission trading in the sector of road and heating fuels could create new overlaps, especially if a carbon component is introduced in the ETD. Our experience with the introduction of a similar system in Germany shows that there are a number of indirect burdens to consumers and unintended consequences for companies which we ask the Commission to analyse thoroughly upfront. In this regard, we welcome the reference to exploring "*the interactions with the existing regulatory and non-regulatory framework applicable to these sectors*" in the EU ETS inception impact assessment.

2. A suitable identification of the market players

While the inception impact assessment does not provide details, the 2030 climate target plan refers to "*an upstream trading system regulating at the point of fuel distributors or tax warehouses*".

The independent fuel supply sector is a complex chain, involving a number of distinct players, some of them being small companies. It would be tempting to apply a potential ETS to fuel distributors acting as excise duty points, mirroring the manner that taxes are being collected. However, in certain countries, some of these fuel distributors such as resellers or small tank storage facilities do not have options for reducing the carbon intensity of the products passing through the excise duty point (no blending facility, no possibility to diversify). For example, tank storage facilities are infrastructure provider and have no information on the carbon content of what is stored in the tank terminals. An ETS can work only if the participants have various options for action with different abatement costs. These options must include offsetting mechanisms.

Complying with ETS generates extensive reporting requirements. Fuels suppliers currently report much data to authorities, e.g. for the purpose of statistics, energy taxation, blending of biofuel components, carbon intensity requirements. Hence, there is already precise and robust data available. No further separate system of monitoring, reporting and verification is necessary.

In the existing ETS system, for most activities the smallest facilities are excluded. We believe that a similar approach should be taken in potential new sectors, in light of the disproportionate administrative burden an ETS would incur to both small fuel distributors and regulatory bodies, compared with the expected climate benefits.

3. A technology neutral approach

We welcome the reference to the need to establish *"a more level playing field in terms of carbon pricing"* in the Inception Impact Assessment. To be thorough and allow for fair competition, any trading system shall cover all energies and fuels used in buildings and road transport, i.e. liquid fuels, gaseous fuels, electricity, with renewable and carbon neutral energies counted with an emission factor of 0.

4. A proper assessment of potential effect on prices

The building heating and transport sectors have a low price elasticity of demand, since behavioural changes are often limited by the lack of suitable alternatives and high conversion costs, including non-monetary costs. Hence, short-term reactions to price changes could be limited. On average, the share of taxes in consumer fuel prices is currently of 59% for gasoline, and 53% for diesel in EU countries. In the ongoing impact assessment, the Commission should carefully assess the effect:

- If the price of CO₂ certificates is low, the impact of energy consumption patterns might remain limited, in spite of imposing a significant administrative burden on market operators and public authorities alike;
- If the price of CO₂ certificates is high, it might disproportionately affect certain categories of the population such as people living in rural areas, in old buildings, putting them at risk of energy poverty.

The inception impact assessment only refers to trading, and not capping emissions under a potential EU system applying to buildings and road transport. Should a cap be envisaged after a transition period, the progressive reduction of the CO₂ certificates available might further enhance this phenomenon.

5. Avoiding parallel systems

The Inception Impact Assessment for the revision of the EU ESR lists a number of options for the future of this regulation and sectors which directly affect independent fuel suppliers. Among these, the option of a parallel system that covers the emissions from the transport and buildings sectors under both the ESR and a new emissions trading system could result in negative consequences, primarily through increased administrative burden, potential for regulatory inconsistencies and complexity for operators to navigate the two parallel systems.

Should the Commission consider the EU ETS to be the more appropriate system to regulate transport and building emissions, UPEI suggests to not choose to follow a parallel system with concurrent emission reductions under the ESR. If on the other hand the Commission's impact assessment finds that the ESR system is adequate for the road transport and buildings sectors, and provides sufficient means for Member States to reach updated 2030 climate target, we are supportive of an ambition increase to the ESR to support the achievement of a higher 2030 target.

UPEI and its members, representing nearly 2,000 European importers and wholesale/retail distributors of energy for the transport and heating sectors, look forward to constructively working with the EU institutions to make Europe's climate policy a success.

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UPEI represents nearly 2,000 European importers and wholesale/retail distributors of energy for the transport and heating sectors, supplying Europe's customers independently of the major energy producers. They are the interface between producers and consumers, using their own infrastructure and flexibility to supply existing demand for conventional and renewable liquid fuels, as well as non-liquid alternatives as part of the energy transition. They cover more than a third of Europe's current demand. The organisation brings together national associations and suppliers across Europe.

Independent fuel suppliers bring competition to Europe's energy market and are able to respond rapidly to changes affecting supply, contributing to security on a local, national and regional level. They have developed and maintain a comprehensive infrastructure for the sourcing, storage and distribution of transport and heating fuels, with a commitment to delivering a high-quality service to all consumers, including those in remote areas.

Since 1962 UPEI has been advocating for a level playing field and fair competition to ensure an affordable, sustainable, and secure energy supply for Europe's consumers. Today, in the context of the transition to a low carbon economy, UPEI and its members are also addressing the challenges of adapting the product range and meeting consumer demand through market-oriented solutions.

With its strong track record in pioneering the supply of renewable fuels in the EU, UPEI's members remain committed to delivering and embracing new, cost effective solutions which further promote energy efficiency and reduce pollutants and emissions.