
UPEI Feedback

Sector Integration – an opportunity to support carbon-neutral fuels

Smart Sector Integration Strategy recommendations

UPEI and its members have embraced the European Union ambition to reach a climate-neutral economy by 2050, and as such are fully committed to contributing to achieving this target through the supply of carbon-neutral fuels by 2050.

There is no silver bullet on the road to climate neutrality, and many different types of technologies and solutions will be needed. Sectoral integration and coupling could be the bridge that ties various decarbonising technologies together, giving opportunities for both molecules and electrons to compete in different market settings and use cases.

UPEI particularly emphasises the important role that sector integration can play in helping decarbonise the transport sector, especially thanks to electrolysis Power-to-X fuels. This technology can be used for myriad of applications, including the production of so-called e-fuels (or Power-to-liquid), which have the advantage of being a drop-in solution for current fleets of vehicles, airplanes and ships, resulting in quick deployment and instant reduction of emissions.

Policy and regulatory support for this technology will be crucial to reap its full potential. The e-fuel technology is versatile: it can be used on a very large scale for global production, and on a local scale, giving flexibility and balancing variable renewable electricity production, leading to the creation of economies of scale. Such changes will translate into lower prices for consumers when they become mainstream. The fact that e-fuels can be distributed and used in the existing infrastructure and vehicles compensates for higher production costs.

With many possible applications and uses by various industries, the Commission should provide stakeholders and market players with a holistic and strategic policy outlook on sector integration in the Smart Sector Integration Strategy, as unlocking many benefits of sector integration will be paramount and act as a glue holding the Green Deal together.

Ensuring a strategic and holistic vision for sector integration

As one of the most flexible and encompassing new aspects of the emerging carbon-neutral European economy, sectorial integration will require all potential technologies to compete based on their sustainability, cost-effectiveness, ability to store energy at best energy efficiency, and flexibility in complementing renewables intermittency. This means that the Strategy and any possible subsequent legislative proposals would have to create a level-playing field based on clear definitions and sustainability rules following life-cycle assessment criteria that would be set in a technology-neutral manner. For instance, this would require the Commission to clearly set out what the distinctions between the concepts of sector coupling and sector integration are, whether these should be used interchangeably or whether sector coupling encompasses certain aspects of sector integration.

Moreover, in order to achieve a holistic look at possible technological pathways of Power-to-X and e-fuels, the Strategy should avoid venturing into prescriptive approaches, such as setting out which

types of technologies should be preferred for different sectorial uses. This thinking would be particularly limiting for further developments of sectorial integration, primarily due to the continued need to advance technological and economic maturity of different technologies. Furthermore, it could lead to investors negatively prejudging investments and research projects for technologies that would have been identified as those not most suited for particular sectors (i.e. requiring all e-fuel to be solely used for the purposes of sustainable aviation fuel). Adopting such an approach would also inhibit the development of economies of scale to fully arise, as these often require varied use cases and scenarios for them to exhibit their cost-effective potential.

While the Commission has made it clear that it intends to support sectorial integration, achieving a quick uptake of Power-to-liquid technologies and other type of Power-to-X technologies will require the Commission to set out which current and novel funding mechanisms it intends to deploy to support them. While the technologies will benefit from Horizon Europe partnerships to ensure their full technological potential, encouraging favourable business environment and creating conditions for rapid and smooth ramp up will be absolutely crucial for Power-to-X technologies to succeed. The Commission should consider deploying Innovation Fund funding, Connecting Europe Facility funding, and including support for Power-to-X technologies in its upcoming EU Recovery Action Plan to create and expand innovative industrial systems vital for these technologies to be adopted at scale.

In line with the Commission's Industrial Strategy,¹ the Commission should also consider further promoting the strategic value chains essential for sectorial integration. UPEI welcomes the announcement of new industrial alliances, which will help gather together various investors and stakeholders along the hydrogen and Power-to-Liquid value chain closers. These should go hand in hand with the creation of an Industrial Alliance promoting low-carbon industries, which could further support CO₂ valorisation and alternative raw materials and fuels including hydrogen, as these are some of the main technological pathways for CO₂ reduction needed to support the uptake of e-fuels and are linked to sector integration.²

Way forward

In light of the above, UPEI, as the voice of Europe's independent fuel suppliers, would propose that the following points are taken into account in the preparation of the Strategy on Smart Sector Integration:

- Create a level-playing field based on clear definitions and sustainability rules following life-cycle assessment criteria that would be set in technology-neutral manner.
- Avoid using prescriptive approaches, such as setting out which types of technologies should be preferred for different sectorial uses, as the alternative could have negative effects on investments, R&D, and economics of scale for various technologies.
- Set out current and novel EU financing to create supportive market conditions for Power-to-X and e-fuel technologies to succeed.
- Further promotion of strategic value chains essential for Power-to-X and e-fuel technologies.

¹ Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions "A New Industrial Strategy for Europe", 10 March 2020, see here: https://ec.europa.eu/info/sites/info/files/communication-eu-industrial-strategy-march-2020_en.pdf

² As pointed out in the recommendations of the Strategic Forum for Important Projects of Common European Interest, *Strengthening Strategic Value Chains for a future-ready EU Industry – Report*, 05 November 2019, see here: <https://ec.europa.eu/docsroom/documents/37824/attachments/2/translations/en/renditions/native>

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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.