THE VOICE OF EUROPE'S INDEPENDENT FUEL SUPPLIERS

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UPEI Position
Revision of the EU Emission Trading System

In a context of peaking energy prices, it is crucial to follow the path of the energy transition while mitigating adverse effects on consumers and businesses alike. UPEI members are committed to the EU climate objectives and have developed their own 2050 vision which outlines short and long-term recommendations for a carbon neutral society and highlights their own contribution.

General comments

In general, UPEI supports the EU ETS as a market-based and cost-effective tool to reduce GHG emissions, and it should contribute to reaching the higher ambition level set for 2030 by EU policymakers while laying the ground for achieving Europe's climate neutrality objective. In the long term, a single carbon market across the economy would be desirable, but we recognise the need for several sector-based systems to coexist in the short term, in light of current differences in abatement costs.

In principle, we support the extension of the ETS to the maritime sector as well the introduction of a separate carbon price in the road transport and buildings sectors, providing a clear market signal for the further deployment of low carbon and renewable fuels and energies. However, the success of the energy transition cannot solely depend on the ETS, as complementary measures are much needed to address market barriers and reduce the price gap between conventional fuels and sustainable alternatives, such as the Effort Sharing Regulation (ESR) as well as sectoral pieces of legislation such as the Renewable Energy Directive (RED), the Alternative Fuels Infrastructure Regulation (AFIR), the FuelEU Maritime proposal, the Energy Performance of Buildings Directive (EPBD) etc.

Specific comments

Independently of whether or not the co-legislators will agree upon establishing an ETS for road transport and buildings, UPEI believes that if such an approach is chosen, certain amendments are necessary to improve the practicality of the new system and to accelerate the deployment of sustainable renewable fuels.

KEY RECOMMENDATIONS

- Regulated entities: Regulated entities should be allowed to delegate the obligation to comply with ETS provisions to other players in the supply chain when not acting fuel suppliers;
- Emission factors: All REDII compliant fuels should have an emission factor of zero in all ETS sectors;
- Practical application: Existing provisions from the excise duty legislation, aiming at solving operational issues, should be mirrored in the EU ETS;
- Linear reduction factor: A buy-out option should be available as a last resort compliance option for fuel suppliers;
- Administrative burden: Mechanisms to reduce the burden on small companies and ensure they can compete fairly with larger companies should be introduced.

Please find more details on UPEI policy recommendations in continuation.

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Regulated entity

UPEI welcomes the reference to authorised excise warehouse keepers as it provides clarity on the regulated entities, in line with existing regulatory framework for the collection of excise duties. Most of these are fuel suppliers. However, such a definition does not allow to nuance the application of the new ETS system to reflect the reality of the market, when in a few instances, regulated entities would not be fuel suppliers.

The fuel distribution sector is complex, with numerous small and medium sized companies involved at one or more stages of the supply chain. In particular, some small and independent tank storage companies do not own the product, they just store it as a service to their clients. Acting as infrastructure providers, they have no information on the carbon content of what is stored in the tank terminals and certainly no influence over it. In this case, they should be able to delegate the obligation to comply with ETS provisions to the owner of the product, which is the fuel supplier. This amendment would ensure a more effective achievement of the objective and limit the administrative burden engendered by the ETS on small facilities. A similar approach has been taken in Germany when setting up the national ETS (REF).

Emission factors

We support the approach of the Commission to count biofuels and biomass as emission-free, in line with IPPC guidelines. However, IPPC guidelines do not define Renewable fuels of Non-Biological Origin (RFNBOs) and recycled carbon fuels, which should be equally considered, in light of their potential for substituting fossil fuels in various applications.

For creating a level playing field between different sustainable alternatives, as well as ensuring full consistency with the RED, all REDII compliant fuels should have a zero emission factor, consistently across all the sectors covered by the ETS. This approach would also make renewables more attractive generally, and provide planning certainty to investors.

Practical application

The application should be clarified and fully aligned with the existing rules governing excise duties. In practice, when the excise duty legislation allows for exemptions, thresholds, specific treatment to cope with operational realities, the same approach should be taken under the ETS for road transport and buildings. For example, it is recognised that the consignor of the product is not liable for the payment of excise duties on the volumes lost during the transport of product (such losses occur naturally or accidentally during the transfer of energy products).

Similarly, the EU legislation on excise duty introduces possibilities for certain market players to claim the reimbursement of excise duties in specific and strictly defined cases. For example, in situation of intra-EU deliveries of taxed products, the consignor can claim the reimbursement of the excise duty in the country of origin, which will then be charged by the consignee in the country of destination (based on the EMCS tracking system).

The same provisions should be mirrored in the new ETS for road transport and buildings.

In addition, the end-user should be able to claim the reimbursement of the carbon price if the final use of the product is not in the scope of the ETS. For example, a trader acting as an intermediary sells fuel initially released by the authorised tax warehouse keeper for the domestic heating sector to an industrial facility or for construction machineries. The end-user should therefore be able to ask for the release of the carbon price (even more so when the end-use is already covered by the main ETS), while the initial tax warehouse should be informed. In parallel, a system allowing fuel suppliers to deliver CO2 price free product to a trader, when it has the proof that this product will be used in out-of-scope sectors, is needed.

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Linear reduction factor

While in the original ETS sector, the consumption of energy can be broadly predicted based on existing equipment and the emission saving measures implemented, it is very difficult for fuel suppliers to predict its evolution in the road transport and building sectors as they are many factors come into play. The Commission proposal is based on the assumption that energy consumption and subsequently CO2 emissions will reduce based on predictive models, but leaves no room for manoeuvre in case consumption patterns follow a different path, for example in the absence of supporting measures or proper implementation of sectoral regulations. In the fuel sector, the only possibility for regulated entities to cope with the declining cap is to sell less fossil fuels. The deployment of biofuel and renewable electricity being limited by regulatory and market barriers, there are not many options for fuel suppliers to reduce their emissions. This situation could lead to a situation where there are not enough allowances on the market to cover the demand.

Fuel suppliers need a "buy-out" option as one of the compliance options, to be used on a last resort. To do so, it should be set at a price which is higher than the cost of investing into the supply of low carbon and renewable fuels or trading credits on the ETS market. In this case, fuel suppliers should not be obliged to surrender an amount of allowances equal to those excess emissions when surrendering allowances in relation to the following calendar year, in order not to create a vicious circle leading to the increasing unavailability of allowances and therefore a growing instability on the market.

Administrative burden

Small and medium, independent and typically family-owned companies will be regulated under the new ETS for road transport and buildings. Complying with ETS generates extensive reporting requirements, and participating in the carbon market adds significant administrative burden, as recognized in the Commission impact assessment[1].

UPEI calls for the consideration of mechanisms to reduce the burden and allow small facilities to compete fairly with larger companies, such as facilitating their access to auctions for example by allowing them to form business groups that can bid on their behalf in auctions.

Concluding remarks

It is essential that the obligations arising from the ETS review and their impact on industry and consumers be examined not in isolation but together with other 'Fit for 55' proposals, including proposals for the revision of the Energy Taxation Directive and the RED. Negotiations should be conducted with a view at the entire package to avoid regulatory inconsistencies, maximise synergies and guarantee the most cost-effective achievement of the objectives.

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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[1] See in particular Annex 5, Section 12 of the Impact Assessment, on the point of regulation

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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.

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