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## UPEI Position Revision of the EU Emissions Trading Scheme

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.

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. They have invested into [hydrogen, biofuel, CNG/LNG, LPG refueling and electricity recharging points](#). However, they need regulatory predictability and consumer demand as a guarantee for investments in renewable and low carbon alternative fuels.

### General Recommendations for the review of the EU ETS

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. 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.

We do not support a system only covering all fossil fuel combustion, but **all energies**, with renewable energies counted with an emission factor of 0 to reflect their carbon neutral performance over the life cycle.

We see the ETS and Effort Sharing Regulation (ESR) as **complementary measures** to address climate change. The option of a parallel system that covers the emissions from certain sectors under both the ESR and a new emissions trading system could result in negative consequences, due to increased administrative burden, potential for regulatory inconsistencies and complexity for operators to navigate the two parallel systems.

For the **maritime sector**, although action at IMO level should be preferred, we support the extension of ETS in line with the requirements of the current Monitoring, Reporting and Verification (MRV) Regulation.

## Specific suggestions regarding the prospect of expanding the use of emission trading to buildings and road transport

In principle, the ETS applies to the organisations directly responsible for the actual CO<sub>2</sub> emissions. 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.

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 CO<sub>2</sub> 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.

### 2. A suitable identification of the market players

The 2030 climate target plan refers to "*an upstream trading system regulating at the point of fuel distributors or tax warehouses*".

The fuel distribution sector is complex, with on the one hand large and integrated energy companies, and on the other, numerous small and medium sized companies involved at one or more stages of the supply chain. Excise duty points were initially established for the purpose of collecting energy tax. 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<sup>1</sup>. 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.

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<sup>1</sup> *IW-Gutachten, Nationaler Emissionshandel für Verkehr und Wärme, September 2020*

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 open approach

We call for a level playing field in terms of carbon pricing. 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 behavioral 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<sup>2</sup>. 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.

Should a cap be envisaged after a transition period, the progressive reduction of the CO2 certificates available might further enhance this phenomenon.

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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<sup>2</sup> CERRE, *Feasibility and impacts of EU ETS scope extension, December 2020*

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.