Brussels, 14th April 2009

EU Refining: an independent assessment of the EU ETS Carbon Leakage Criteria

Dear Didier,
Dear Wolfgang,

Wood Mackenzie have conducted an assessment of GVA and trade intensity for EU Refining on behalf of EUROPIA

In 2008 EUROPIA submitted some preliminary data to DG Enterprise as part of their initial assessment of the risks of carbon leakage. The Directive adopted in December 2008 amended these criteria, and the (Eurostat) data sources to be used were finally identified at end March 2009.
The Commission has indicated that if any sectors had concerns about the reliability of the Eurostat data, they should submit alternative data to validate Eurostat. Although not having access to all the relevant Eurostat data, EUROPIA did have some concerns that they would not represent EU Refining accurately.
Wood Mackenzie (WoodMac) is a large independent consultant which has for 30 years provided commercial analysis to the global Energy Industry and to Governments and Agencies; EUROPIA requested that they conduct a short review of Eurostat and compare the key indicators of GVA and Trade Intensity for the EU 27 with their own calculations of these indicators.

WoodMac concluded that some Eurostat data may be unreliable, leading to understated carbon leakage indicators

- They concluded that there is considerable uncertainty around the Eurostat GVA data; the Eurostat 2005/2006 average GVA is 40% higher than that calculated by WoodMac. There are some very significant differences in some large Refining Countries.
- They found that there are 1100 enterprises shown in NACE DF232, but only ~110 Refineries in the EU; this could perhaps explain the difference in GVA, though WoodMac was unable to verify this.
- The cost of CO2 as a proportion of GVA may therefore be understated using Eurostat by a factor of 40%: the 2005/2006 average using Eurostat is 15%, versus 21% using WoodMac.
- Trade Intensity, however, may be understated in Eurostat by only about 10%: using Eurostat, 2005/2006 Trade Intensity is 23% versus 26% from WoodMac. Both indicate the increase in non EU trade of refined products over the period.

The WoodMac analysis shows that, even in this period of relatively strong Refining margins from 2004-2008, the cost of buying CO2 allowances would be a significant part of value added; it highlights that non EU trade in refined products is substantial and growing. It confirms that EU Refining is exposed to significant risk of carbon leakage, with both quantitative criteria exceeding the thresholds defined in the ETS Directive by a significant margin.

We would be pleased to discuss the report further, and to assist where we can in improving the reliability of the Eurostat data for Refining.

Yours sincerely,

Chris Beddoes
Executive Officer
EUROPIA