

## Briefing The revised FQD: weakened proposal must still be implemented

### Context

On 7 October, 2014, the European Commission finally published a revised proposal to implement Article 7a of the Fuel Quality Directive (FQD). The FQD is one of the key EU policies that were adopted as part of the climate and energy package in 2009. It has a 6% target to reduce carbon intensity from transport fuels by 2020 compared to a 2010 baseline. It is also the only law from the climate and energy package that still has not been implemented five years later<sup>1</sup>.

The Commission published the first version of the proposal to implement the FQD in October 2011. The revised measures proposed by the Commission in October 2014 represent a significant watering down of its original proposal – due to significant lobbying by the Canadian and US governments and the oil industry<sup>2</sup>.

This briefing looks at the main features of the 2014 proposal and the main changes compared to the previous proposal from 2011. Despite the weakening, some of the elements of the 2014 proposal are worth implementing and strengthening, such as the new reporting of crude oil imports by market crude oil names (MCONs). In addition, the 2014 proposal gives fuel suppliers new ways to meet the FQD target, such as promoting low-carbon electricity used in transport.

### The proposal weakens reporting of unconventional fuels very significantly

The 2014 proposal still formally recognises that road fuel made from unconventional sources of oil – tar sands (natural bitumen), oil shale or coal-to-liquid – has a higher greenhouse gas intensity than normal fuel. The carbon intensity values for tar sands (107g CO<sub>2</sub>/MJ) and other unconventional fuels are the same as in 2011.

But there is a big change from the 2011 proposal: the feedstock-specific values are largely a formality now. Under the 2011 proposal, each company would have had to report the share of unconventional fuels it brings to the EU market, and the more high-carbon fuels the company would bring in, the higher its average GHG intensity and the more effort it would need to hit its 6% target.

Under the 2014 proposal, every company gets the same EU default value per product, regardless of feedstock used to make the product. This average is the average 2010 carbon intensity for fossil petrol and diesel<sup>3</sup>. This EU value may be updated by the European Commission based on scientific and technical progress. The proposal has no official review clause, but the Commission has the right to initiate a review regardless and has committed in its press reaction to do it<sup>4</sup>.

<sup>1</sup> Timeline of delay: <http://www.transportenvironment.org/publications/fqd-fuel-quality-directive-or-frequently-and-quietly-delayed>

<sup>2</sup> "Dirty Deals: how trade talks threaten to bring tar sands to Europe":

<http://www.transportenvironment.org/publications/dirty-deals-how-trade-talks-threaten-bring-tar-sands-europe>

<sup>3</sup> In **bold** in the table.

<sup>4</sup> [http://europa.eu/rapid/press-release\\_IP-14-1095\\_en.htm](http://europa.eu/rapid/press-release_IP-14-1095_en.htm) By saying that "any potential increase in the volume of high carbon intensity crudes (such as oil sands), as compared to their 2010 baseline levels, would need to be met by proportional efforts to lower emissions in other areas" the Commission implicitly commits to reviewing the default values.

| Type of feedstock  | lifecycle GHG intensity<br>(g CO2eq/MJ) |        |
|--|---|--------|
|  | Petrol                                  | Diesel |
| <b>2011 proposal: report GHG intensity, per feedstock<sup>5</sup></b>        |   |        |
| Conventional crude   | 93.2                                    | 95.0   |
| Natural bitumen  | 107                                     | 108.5  |
| Coal-to-Liquid   | 172                                     | 172    |
| Natural Gas-to-Liquid  | 94.3                                    | 94.3   |
| Oil shale  | 131.3                                   | 133.7  |
| <b>2014 proposal: report one default value, regardless of feedstock used</b> |   |        |
| 2010 average   | 93.3                                    | 95.1   |

### What does it mean?

The reporting of one single EU carbon intensity value will not discourage the use of high-carbon oil. Each fuel supplier has to achieve the 6% reduction target but all suppliers will report annually the same EU-wide carbon intensity value for fossil petrol and diesel (95% of current fuel sales), whether their products originate from high-carbon sources like tar sands or not. As a result, this system doesn't discourage the use of high-carbon oil.

Research by the US Natural Resources Defense Council (NRDC) shows that 5.3% to 6.7% of EU transport fuels will likely come from Canadian tar sands by 2020 – equivalent to adding 6 million cars on Europe's roads by 2020. The FQD impact assessment shows also that some tar sands will come from Venezuela<sup>6</sup>. Several European companies already started investing in refining capacity to process tar sands-based oil in Europe, such as Repsol in Spain<sup>7</sup> or Exxon in Belgium<sup>8</sup>. This means that more high-carbon oil will enter Europe, making the carbon intensity of our fuels worse and offsetting other effective policies to reduce carbon emissions.

### The introduction of reporting of market crude oil names (MCONs)

The novelty of the 2014 proposal is that the suppliers have to report MCONs to national authorities, in addition to the origin and the place of purchase of their oil.

Importers of crude oil<sup>9</sup> have to report MCONs (referred to as “feedstock trade names”) for imported crudes that will be processed in EU refineries. This is a novelty compared to 2011 and is similar to the system that is already in place in California<sup>10</sup>. Crude oil is sold on international markets under various market names, such as West Texas Intermediate or Brent. The proposal contains a list of names that have to be reported by suppliers to national authorities.

<sup>5</sup> The values listed below are from the 2014 proposal. In 2011, the values were different for conventional crude (87.5 gCO2eq/MJ for petrol and 89.1 gCO2eq/MJ for diesel) and natural gas to liquid (97 gCO2eq/MJ).

<sup>6</sup> Impact assessment study, p.23. [http://ec.europa.eu/clima/policies/transport/fuel/docs/swd\\_2014\\_296\\_en.pdf](http://ec.europa.eu/clima/policies/transport/fuel/docs/swd_2014_296_en.pdf)

<sup>7</sup> “First major tar sands oil shipment arrives in Europe amid protests”, The Guardian,

<http://www.theguardian.com/environment/2014/jun/06/first-tar-sands-oil-shipment-arrives-in-europe-amid-protests>

<sup>8</sup> “ExxonMobil to pump \$1bn into Europe”, Financial Times,

<http://www.ft.com/intl/cms/s/0/3733cf5a-0134-11e4-a938-00144feab7de.html>

<sup>9</sup> SMEs excluded.

<sup>10</sup> Under the Californian Low Carbon Fuel Standard.

Importers of refined products (20-25% of EU imports) will have to report whether their products originate in the EU, but not the MCONs. They will also be required to disclose the country and name of the refinery of origin.

Small and medium companies only have to report if the crude oil/product is from the EU or not.

### **What does this mean?**

This means that the EU is aligning its system with the one of California. Concretely, we will have more information on the type of crude oil used in Europe. This system could also help to have a better picture of the carbon intensity of crudes used in the EU. A previous leaked version of the FQD proposal included carbon intensity values for 229 MCONs, out of the 621 listed<sup>11</sup>. Having information on MCONs will also permit the public to know, to a certain extent, if EU crudes originated from unconventional raw materials or not. However, the degree of information made available publicly will depend on the level of transparency that member states will set at national level.

### **Current proposal opens alternative options to biofuels to meet the 6% target**

Until new implementing measures are adopted, the fuel suppliers can only meet the 6% target by blending in more biofuels. In the 2011 proposal, fuel suppliers could also opt for using lower-carbon fossil fuels. In particular, that proposal would have disincentivised the use of tar sands and other high-carbon unconventional fuels – leading to additional GHG savings of up to 19 million tonnes per year<sup>12</sup>. The 2014 proposal takes away this compliance option, but it still keeps options to blend electricity, hydrogen or other low-carbon fuels and reduce upstream emissions from flaring and venting – at project level.

### **Conclusion**

The 2014 proposal will not give fuel suppliers any incentive to stay away from ultra-high-carbon petrol and diesel, for example those made from tar sands. It will do very little to reduce investment in these technologies, and takes away one major compliance option to hit the 6% target in the Fuel Quality Directive. This is against the original intent and spirit of the law and represents a regrettable weakening compared with the 2011 proposal. But fuel suppliers will have to disclose more accurately where their fuel comes from and from what type of crude it is made – a first step towards much needed transparency.

The proposal also gives additional incentives to promote other low-carbon transport energy, such as electricity and hydrogen. The FQD should be significantly strengthened in the future, in order to steer the oil companies towards the low-carbon transition necessary to limit global warming to 2°C.

### **Further information**

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<sup>11</sup> Some carbon intensity values for MCONs were present in a previous leaked version of the FQD proposal:  
[http://www.transportenvironment.org/sites/te/files/2014\\_10\\_MCON\\_list\\_with\\_CI\\_values\\_FQD.pdf](http://www.transportenvironment.org/sites/te/files/2014_10_MCON_list_with_CI_values_FQD.pdf)

<sup>12</sup> CE Delft, Environmental and economic impacts of FQD implementation,  
<http://www.transportenvironment.org/publications/environmental-and-economic-impacts-fqd-implementation>