

Upstream emissions reductions in the Fuel Quality Directive

NGO recommendations for European Commission guidelines

October 2015

A briefing by  TRANSPORT & ENVIRONMENT

Summary

The recently adopted implementing rules for the Fuel Quality Directive (FQD) include the possibility for fuel suppliers to use upstream emissions reductions (UERs) to reach the 6% decarbonisation target. But the rules are quite vague and without robust guidance by the European Commission, and restrictions by member states, there is a substantial risk of double counted and non-additional offset credits being used for compliance, seriously undermining the FQD's effectiveness. The European Commission is expected to release a non-legislative guidance document for the member states in the coming months and this briefing highlights the key recommendations that this guidance document should follow.

1. Context

The new fuel quality rules allow for the possibility for fuel suppliers to count reductions in emissions happening prior to the crude oil entering a refinery, including reductions in flaring and venting emissions. According to the current rules, these upstream emissions reductions can take place in any country, even if the fuel supplier is not supplying oil originating in this specific country. Fuel suppliers have to comply with some reporting requirements to be able to claim those UERs, but they are very vague.

Overall, there is a huge lack of clarity regarding how many projects and associated emissions reductions could eventually be counted towards the FQD reduction target. Without restrictions around the eligibility of the projects, there is a risk of the FQD target being filled with reductions from projects that would have happened anyway, which would undermine the FQD's initial purpose – achieving real reductions in the life-cycle carbon intensity of road transport fuels.

2. T&E recommendations

On the basis of an analysis conducted by Carbon Market Watch¹, we would recommend that the European Commission and member states implement the upstream emission reductions in the following way:

1. **Ensure additionality** by requesting supplementary additionality assessments to prove that reductions are additional to a business-as-usual scenario. The additionality analysis should take into account national policies (the project is not required under local laws or regulations), financial revenues (the project is not financially attractive without credit support) and initiatives such as the Global Gas Flaring Reduction Partnership.
2. **Avoid double counting** between member states, between the EU and third countries, and between the FQD and the EU emissions trading system (EU ETS). This could be partially achieved through the establishment of a central European database set up and administered by an independent EU body.

3. **Limit eligible offsetting schemes to CDMs in LDCs.** This would align the FQD rules with the ETS where clean development mechanism (CDM) credits from projects starting after 2012 can only be used if located in ‘least developed countries’ (LDCs). This option would limit the number of eligible projects but could still provide a significant number of emissions cuts. For example, a project in Angolaⁱⁱ for capture and utilization of associated gas could generate almost 14 million carbon offsets a year, when the UER demand to reach the FQD target at EU level is around 8 million.
4. **Exclude credits from JI and unconventional oil projects** (tar sands, oil shale, coal-to-liquid, gas-to-liquid). All registered joint implementation (JI) Track 1 projects to reduce flaring have been registered in Russia, with very limited transparency, no international oversight and very low environmental integrityⁱⁱⁱ. Questionable projects related to tar sands extraction could also be eligible, while higher emissions associated with tar sands imports and other unconventionals to the EU are not accounted for under the FQD rules^{iv}.
5. **Only recognise projects with high environmental integrity, with a primary focus on flaring and venting.** The FQD rules permit the accounting of emissions reductions happening prior to crude oil entry in the refinery but there is already sufficient mitigation potential to reduce emissions from flaring and venting solely. Currently, the flaring of natural gas releases over 400 million metric tonnes of CO₂e emissions globally every year. In addition, without further environmental safeguards, some questionable projects such as the building of a road to a tar sands facility in Alberta could end up being eligible under the FQD framework.
6. **Prevent the accumulation of credits** over several years. The FQD decarbonisation target covers reductions happening in 2020 only. Reductions happening over several years before 2020 should not be taken into account.
7. **Require full transparency** from fuel suppliers about the issuance year, quantity, type, serial number and origin of offsets used, and make this information publicly available.

For more information on upstream emissions reduction in the context of article 7a and the different kind of projects that could be eligible towards the FQD target, please see the briefing on “[The role of international offsets in the Fuel Quality Directive](#)”.

Further information

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Endnotes

ⁱ The Role of International Offsets in the FQD, http://carbonmarketwatch.org/wp-content/uploads/2014/12/Role-of-International-Offsets-in-FDQ_final.pdf

ⁱⁱ <http://cdm.unfccc.int/UserManagement/FileStorage/N3PZFHROSKDG6YJXAQTM7CE2B1IL48>

ⁱⁱⁱ A recent report by the Stockholm Environment Institute on Joint Implementation projects rates additionality of projects related to associated petroleum gas utilisation as “not plausible and overcrediting likely to be significant”. They also rate the overall environmental integrity of ERUs generated by this project type as low.”: <http://www.sei-international.org/news-and-media/3196>

^{iv} <http://www.transportenvironment.org/press/canada-us-and-big-oil-bullying-dilutes-eu-dirty-fuel-law>