

UKPIA



**ACTION NOT
WORDS**

An energy manifesto for
change

General Election December 2019

Key statistics for the UK's downstream oil sector

GDP



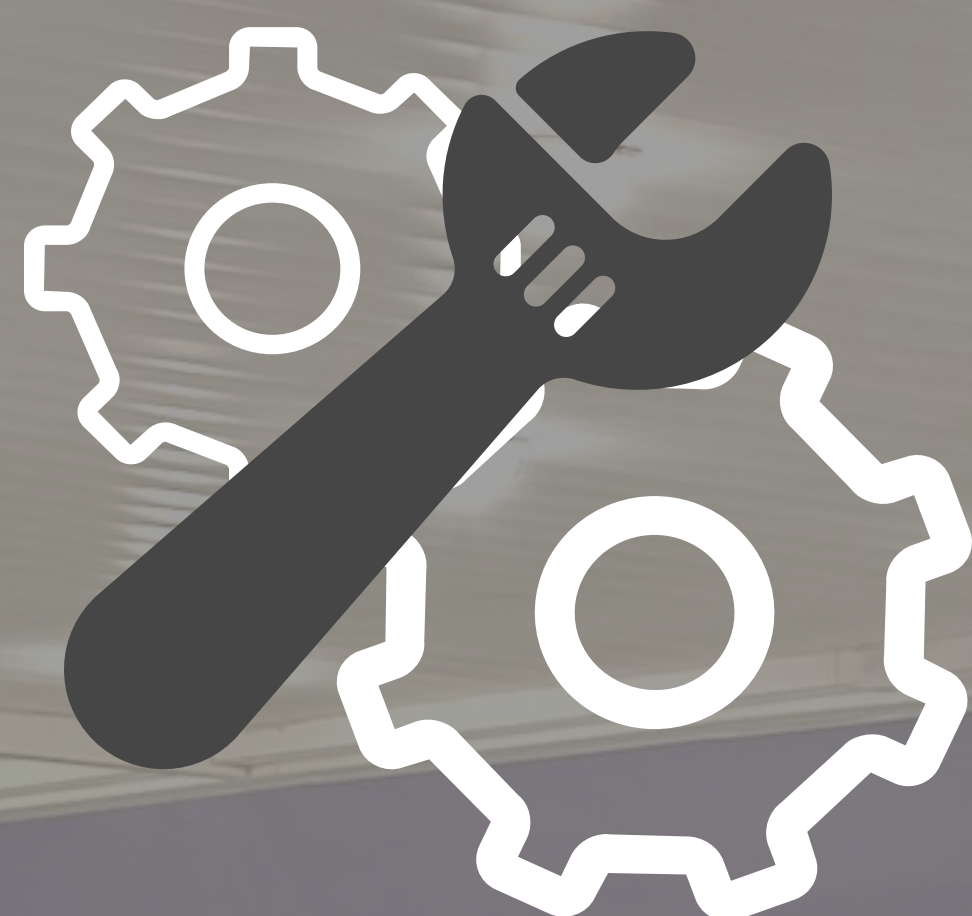
£21.2 billion in GDP supported by the downstream sector's own activities, those of its supply chain and from the spending of workers linked to the sector

Jobs



300,000 people employed in the downstream sector directly, through its supply chain or jobs supported through the spending of worker's linked to the sector

Skills and productivity



Productivity in the downstream sector is 29% above the national average

35% employed at refineries in roles with a degree or equivalent and 23% completed or currently completing an apprenticeship

Tax revenues



In 2016/17, the sector collected £28 billion in fuel duty and £8 billion in VAT from road fuels, totalling 5% of the UK's total tax receipts

Energy supply



38% share of UK energy consumption met by petroleum products

6 major refineries, 41 coastal and 20 inland terminals and 3,000 miles of pipelines

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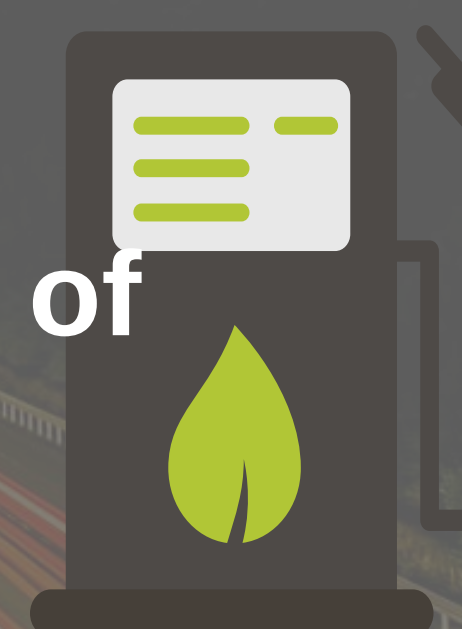
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Foreword

This election is one of the most important for generations.



After two years of uncertainty and upheaval, people now, hopefully, have an opportunity to elect a Government and Parliament that will finally be able to take long-term decisions for the country.

Nowhere is this more important than when it comes to energy.

Energy - where we get it from, how we develop it, how it is used - sits at the crux of almost every major debate facing the UK and the world: whether it be our stewardship of the environment and how we tackle the effects of climate change, to how we work, move and enjoy a good standard of living.

Energy is the key enabler of how society operates.

Oil products - thanks to their relative low cost, reliability, energy density and abundance - have enabled us to channel our talents and endeavours with astoundingly positive results; creating an energy infrastructure that today allows 7 billion people to move, interact and improve their lives beyond measure compared to past generations. While the UK Government's Clean Growth Strategy has made the point that the UK can grow its economy and reduce carbon emissions, global forecasts such as the IEA indicate that petroleum product demand will rise into the 2030s.

As we look ahead, it is clear that the next wave of human ingenuity will again change how the energy sector operates. The challenges of climate change, global and national environmental legislation, technological innovation and new ways of thinking are all revolutionising the approach we are likely to take in terms of mobility and transportation, industrial operations and manufacturing, heating and waste management.

UKPIA is clear: amidst all these changes, oil and petroleum products will still be a fundamental part of the energy mix for decades to come - the Committee on Climate Change's 'Net Zero' modelling shows the need for our products in 2050. However, we are equally clear that the talents of engineers, scientists, operators and business leaders across the downstream oil sector can play an essential part in decarbonising our industry, our products and society as a whole.

For the UK downstream oil sector that means having the necessary conditions to develop the ideas, strategies, policies and technologies needed to successfully navigate the years ahead, so that we can contribute significantly to decarbonisation goals - whilst providing security, reliability and affordable products to wider society.

Utilising the existing infrastructure of refineries, pipelines, terminals, filling stations and other downstream assets, there is an opportunity for companies to bring low-carbon solutions directly to consumers whilst maintaining hundreds of thousands of high-skilled jobs across the nations and regions of the UK.

We cannot do this alone, however.

To take advantage of the innovations within society's grasp and to achieve a circular economy across the downstream oil sector and wider economy, the Government needs to put in place policies that can bring these solutions to the marketplace at scale, and avoid an outcome where 'carbon leakage' allows those emissions to be off-shored with no benefit for the global environment.

That is why UKPIA - the trade association for the UK's downstream oil sector - has put together this energy manifesto, outlining the areas where our political parties need to focus their attentions once the election campaign is over, so that we can work together to ensure the UK meets 'Net Zero' by 2050 by achievable means.

Whether it is putting in place a **future relationship with Europe** that enables competition, creating the conditions for new business models to support **industrial clusters** or policies that will make the UK a world leader in the 'white heat' of **low-carbon fuel** technologies, the next Government needs to take the bold decisions necessary to build a low-carbon 21st century energy industry for all.

We can no longer afford to waste the opportunities in front of us.

The time for distraction and delay is over. It's time for action.



Stephen Marcos Jones

Director-General, UK Petroleum Industry Association



An agreement between the UK and EU that enables barrier-free trade, retains UK collaboration in EU-wide systems and which allows for a sustainable and resilient downstream oil sector should be the priority for the UK Government.

1 A future relationship with Europe that ensures access and competitiveness

Industry can ill-afford further uncertainty in our future trading relationship with the EU. Whatever the outcome of the next election, the UK needs an arrangement that ensures access to goods and services with our nearest market, and enables the downstream sector to compete on a level playing field.

The EU is one of the UK downstream oil sector's biggest trading partners, and was the recipient of 65.9% of all UK petroleum product exports last year. In addition to this mutually beneficial trading relationship, the high-degree of regulatory and supply chain cohesion we have enjoyed as an EU member has been a key part in the success of UK plc.

UKPIA and our members have consistently argued that an agreement between the UK and EU that maintains barrier-free trade, retains UK collaboration in EU-wide systems and which allows for a sustainable and resilient downstream oil sector should be the priority for the UK Government.

The UK's future partnership with the EU needs to be underpinned by a number of key principles. These are:

Access to goods and services

Maintain efficient and competitive supply

Collaboration

A collaborative approach and ongoing strategic dialogue between government and industry

Stability

Maintain investor confidence, sustainability and resilience

Whoever forms the next Government needs to ensure these principles are applied to our future relationship with Europe across the following policy areas:

Trade

- Maintenance of the level playing field between the UK downstream oil sector and competitors in the EU and Rest of the World
- Maintain tariff-free access on petroleum products and manufacturing essentials under WTO rules
- If tariffs are to be introduced, they should be equal and opposite between the UK, the EU and the Rest of the World

Chemicals registration

- Continued UK regulation under EU REACH for chemicals registrations and UK membership of ECHA
- Avoidance of any costly, duplicative UK-only systems for chemicals registration



Chemicals registration (continued)

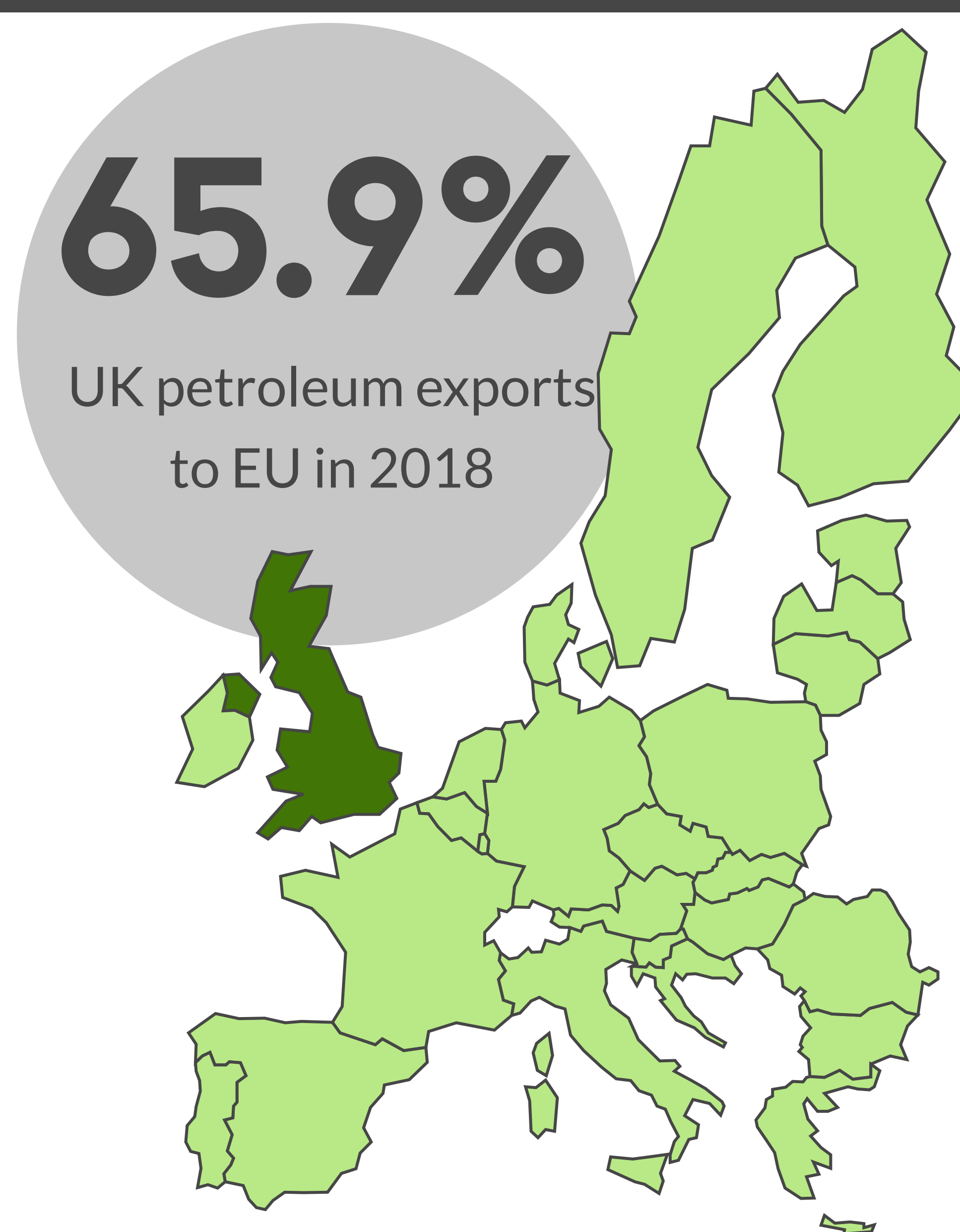
- Ensure any proposed new body to oversee emissions abatement must not override the balance of environmental, economic, social and other factors that only elected legislatures can make

Compulsory oil stockholding

- UK should continue to meet its obligations to hold emergency petroleum stocks at an internationally agreed level
- Retain a flexible cross-border regime for trading international tickets and agreements with other countries, including EU member states

Emissions trading

- Ensure full 'carbon leakage' protection for UK energy intensive industries from any long-term negotiated carbon emissions reduction scheme
- Continued UK membership or close links to the EU Emissions Trading Scheme (EU ETS)
- If a UK 'carbon tax' is introduced, it should be aligned to EU-ETS mechanisms



A large blue and white ship is docked at a pier. In the background, there are industrial buildings and tall smokestacks. The sky is blue with white clouds. The water is a light blue-grey color. A small red buoy is visible in the water on the right side.

Low-carbon fuels will be of vital importance in the drive to reduce carbon emissions.

2 Support the development of low-carbon fuels and technologies

The UK has an opportunity to lead the world in low-carbon fuels. A lifecycle analysis and framework that rewards lower carbon energy options could help deliver at scale low carbon fuels which can help meet ambitious carbon abatement objectives. This would also reduce the disruption and upheaval associated with the introduction of alternative technologies, by using existing infrastructure.

The need for international and domestic efforts to tackle climate change is widely accepted across civil society and industry. Nonetheless, achieving ambitious 'Net Zero' climate reduction targets represents an enormous challenge.

That is why low-carbon liquid fuels should be of vital importance in the drive to reduce carbon emissions.

Liquid fuels - particularly in hard-to-decarbonise transport like HGVs, aviation and shipping - will be essential for decades to come, providing energy for transport and the smooth and efficient operation of the wider economy and society.

Therefore, reducing the lifecycle carbon intensity of the liquid fuels - combined with increasingly fuel efficient conventional vehicles - that society uses in future in an affordable and efficient manner will be central to society's efforts to tackle climate change.

Technology options already exist that could greatly reduce carbon emissions, such as:

- Second generation biofuels
- Renewable Fuels from a Non-Biological Origin (RFNBO)
- Low-carbon fossil fuels
- Development fuels

A technology neutral approach to promoting low-carbon fuels development should include:

- Incentivising further research and development into all low-carbon fuel technologies, without 'picking winners'
- Adopting a lifecycle approach to understanding transport carbon emissions for conventional, hybrid and EV vehicles



In addition to the development of low-carbon fuels, more needs to be done by Government to encourage the adoption of carbon abatement technologies in the process and manufacture stage of the downstream sector.

From further process efficiency improvements, lowering the carbon footprint of energy used at refineries - such as fuel switching - and developing long-term methods to incentivise companies to capture, store and utilise carbon, the downstream sector can take major strides toward decarbonising the entire value chain of the fuel manufacturing process.

To realise this ambition, the next Government must work with industry to develop mechanisms so that companies can prioritise investment in industrial decarbonisation. These might include:

- Incentivising support for carbon abatement technologies, such as Carbon Capture (CCUS), by adopting successful incentives that have been delivered elsewhere (i.e. the 45Q tax credit scheme in the US)
- Extending Enhanced Capital Allowance (ECA) schemes so that industrial-scale projects that improve energy efficiency can be considered eligible
- Supporting infrastructure investment to deliver industrial decarbonisation, such as financial support for large projects or policies to reduce financial risk
- Encourage Competent Authorities (CAs) to work with refinery operators to innovate refinery operations that are in line with economic growth as well as environmental objectives

An aerial, top-down view of a large industrial complex, likely a refinery or chemical plant, at night. The facility is illuminated with warm yellow lights, highlighting a dense network of pipes, metal structures, and large cylindrical tanks. The layout is organized into several distinct sections separated by paved walkways. A large, semi-transparent black rectangular box is centered over the image, containing white text. The background image has a blueish tint, suggesting a twilight or night sky.

**Government has a
critical role in
supporting a successful
industrial cluster
programme.**

3 Demonstrate leadership for industrial clusters

Industrial clusters have the potential for adjacent industries to improve their energy efficiency, produce lower-carbon products and technologies and decarbonise their operations at a greater scale than could be achieved alone.

The downstream oil sector has a presence across almost every region of the UK, and each UK refinery exists in geographical proximity to other energy intensive industries.

This is potentially a major opportunity for individual companies in the refining sector to play a central part in the UK's energy transition, leveraging scale, expertise and resources to participate in industrial clusters.

The Department for Business, Energy and Industrial Strategy's (BEIS) Industrial Cluster Mission aims to establish the world's first net-zero carbon industrial cluster by 2040 and at least one low-carbon cluster by 2030.

A successful industrial cluster policy has the potential to position the UK as a top destination for global inward investment, reduce carbon emissions and ensure the long-term future of the UK's downstream oil sector and the thousands of high-skilled jobs supported in the refining sector.

However, any effective cluster initiative involving the downstream oil sector hinges on three key criteria:

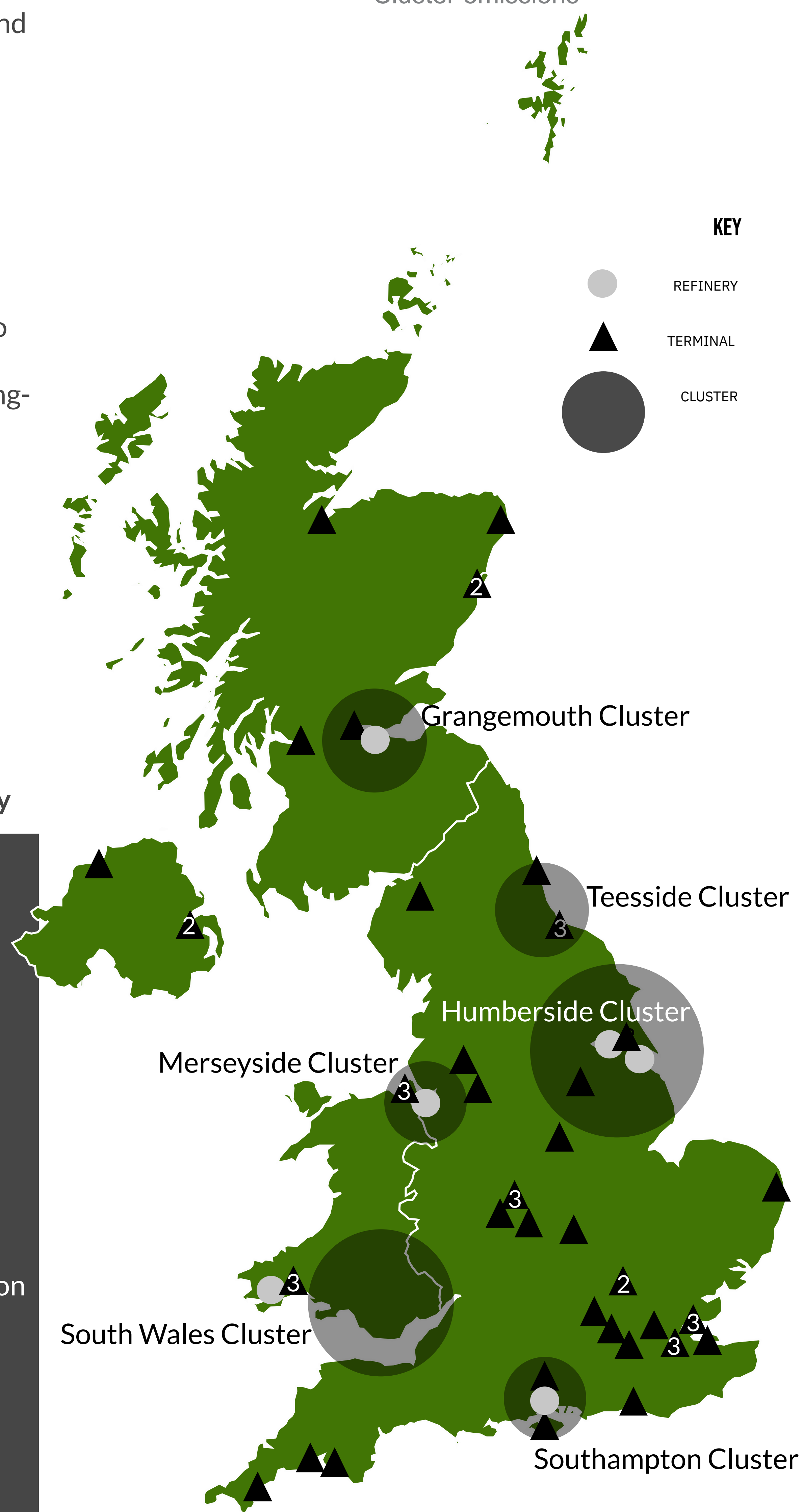
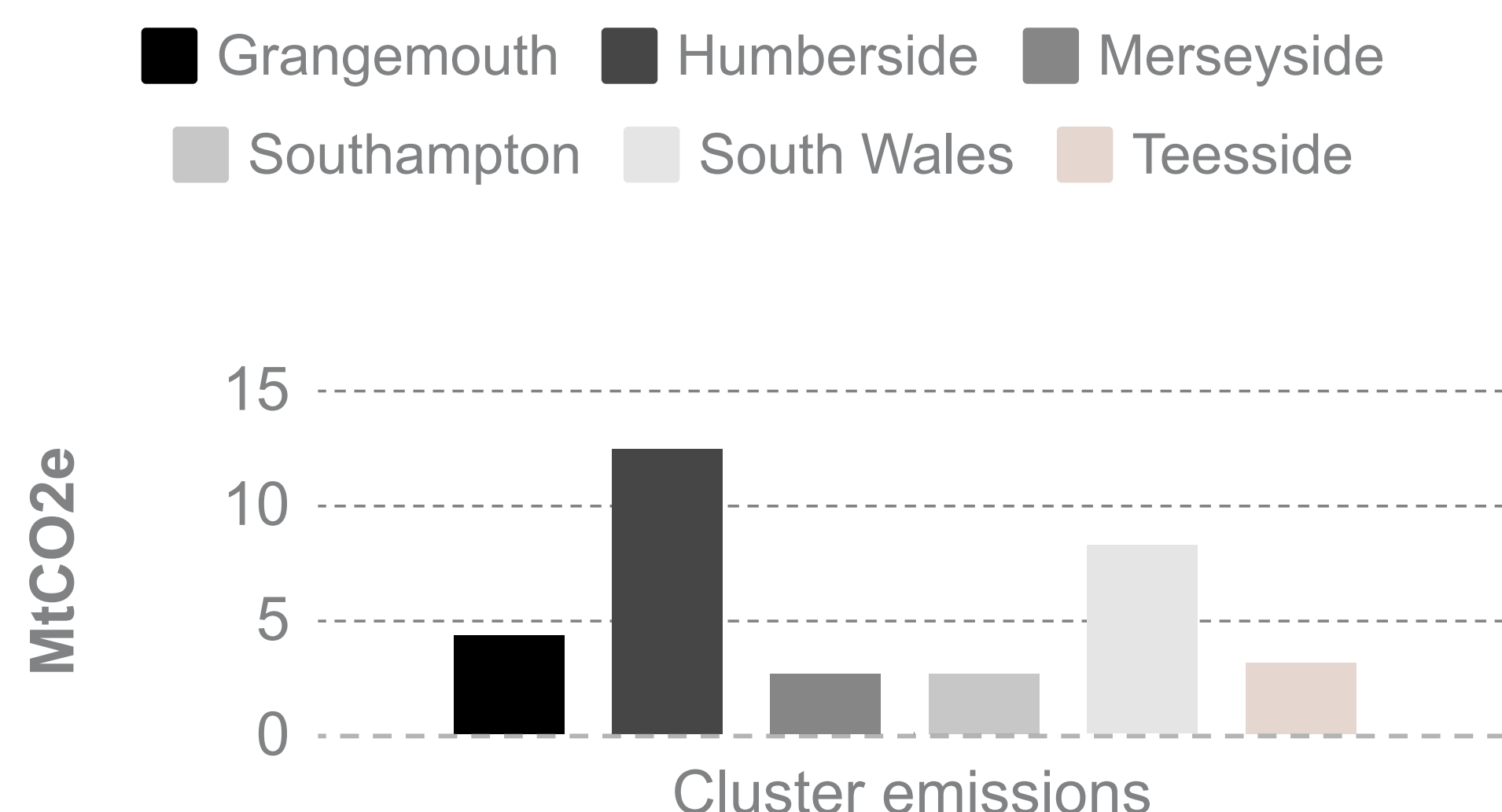
1. Strong leadership
2. A shared vision between cluster participants
3. For the cluster to evolve in a modular and phased way

Government has a critical role in supporting these three fundamental aspects of a successful industrial cluster programme.

UKPIA is calling on the next Government to :

- Recommit to the BEIS Industrial Cluster Mission
- Encourage clusters to move from well-intentioned discussion to actual investment and change on the ground
- Support companies in developing their common vision for their cluster regions
- Encourage companies to upskill workers and boost training within clusters through shared apprenticeship accounts under the Apprenticeship Levy, and work with devolved administrations to achieve the same in clusters in Scotland and Wales

Largest industrial clusters by emissions



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#EnergyManifesto

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