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By email to lowcarbonfuel.consultation@dft.gov.uk

Response to consultation on "RTFO: addressing multiple incentives".

Dear Sir or Madam

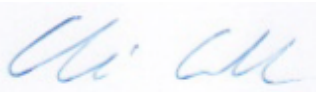
Fuels Industry UK represents the eight main oil refining and marketing companies operating in the UK. The Fuels Industry UK member companies – bp, Essar, Esso Petroleum, PetroIneos, Phillips 66, Prax Refining, Shell, and Valero – are together responsible for the sourcing and supply of product meeting over 85% of UK inland demand, accounting for a third of total primary UK energy (based on the Department of Energy Security and Net Zero Digest of UK Energy Statistics 2022).

The refining and downstream oil sector is vital in supporting UK economic activity. It provides a secure supply of affordable energy for road and rail transport, aviation, and marine applications, as well as for commercial and domestic heating. It also supplies base fluids for use in lubricants, bitumen for use in road surfacing, and graphite for use in electric vehicle batteries and as electrodes in steel and aluminium manufacture.

Fuels Industry UK welcomes the opportunity to respond to the consultation on the renewable transport fuels obligation: addressing multiple incentives.

Our responses to the questions posed in the consultation are given in Attachment 1.

Yours sincerely



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Energy Transition Lead, Fuels Industry UK

Appendix 1: Fuels Industry UK Response

1. Rank the 3 options in order of preference and provide a short explanation for your reasoning, including evidence or data where possible.

Ranked in order of preference, most preferred first:

1) Option 1
2) Option 3
3) Option 2

We note that Option 1 appears to be the DfT "minded to" position at the time of the consultation publication.

The size of the UK market relative to international demand for low carbon fuels is an important consideration to any changes that may be made. Analysis of the OECD global bioethanol and biodiesel consumption data [1,2] shows that UK demand made up only 1.2% by volume of the global demand of around 186bn litres in 2022.

While the UK may want to partially divert from EU rules following the UK's withdrawal from the European Union, there needs to be a recognition about the possibility of UK specific rules being embedded in existing globally recognised schemes.

It is therefore highly unlikely that global biofuel producers will include additional information on the basis that there is a chance the fuel will be supplied and consumed in the UK. Therefore, those submitting claims for either Renewable Transport Fuel Certificates (RTFCs) or SAF in the future in the UK will not know whether the fuel they place in the market in good faith will have been subject to a form of prior award or incentive.

The ISCC EU scheme [3] used for around 97% of the UK low carbon fuel supply in 2022 [4] requires reporting of information on "*production of the fuel of fuel precursor support was received and if so, type of the support scheme (where relevant for transparency reasons)*". This then references Article 2(5) of the EU RED

[1] https://stats.oecd.org/viewhtml.aspx?datasetcode=HIGH_AGLINK_2022&lang=en
[2] https://www.oecd-ilibrary.org/agriculture-and-food/data/oecd-agriculture-statistics_agr-data-en
[3] https://www.iscc-system.org/wp-content/uploads/2022/05/ISCC_EU_203_Traceability_and_Chain-of-Custody-v4.0.pdf
[4] https://www.gov.uk/government/statistics/renewable-fuel-statistics-2022-final-report

II directive [5] "'*support scheme' means any instrument, scheme or mechanism applied by a Member State, or a group of Member States, that promotes the use of energy from renewable sources by reducing the cost of that energy, increasing the price at which it can be sold, or increasing, by means of a renewable energy obligation or otherwise, the volume of such energy purchased, including but not restricted to, investment aid, tax exemptions or reductions, tax refunds, renewable energy obligation support schemes including those using green certificates, and direct price support schemes including feed-in tariffs and sliding or fixed premium payments*". This definition narrows the scope of the relevant ISCC restriction geographically to within the EU, rather than globally.

However, we note that there is already confusion by UK operators about the reporting of multiple incentives under the ISCC scheme. The scheme has introduced a declaration for support scheme, as indicated below. However, we understand that the footnote associated with the declaration may be incorrect as it suggests that it is "*applicable to agricultural and forest biomass including residues from agricultural, aquaculture, fisheries and forestry*", which is inconsistent with the guidance and references described above.

In summary, therefore, the ISCC certification does not currently provide buyers with sufficient information on prior support at a global level and is unlikely to cover all cases of support within the EU.

Although UK and Europe appear to have moved away from direct agricultural subsidies, these or other forms of payment still exist at a global level, which would appear to disqualify these feedstocks. There is also the potential for future scenarios where the UK provides investment aid to counties to assist in developing either agricultural or green projects, which would then disqualify the resulting feedstocks or biofuels form entering the UK market. The UK Government position on these needs to be clarified in the consultation response.

The economics and risks associated with SAF production is likely to mean that most, if not all, plants will have benefited in some way from government funding (include references to advanced fuel fund etc). We are aware that the UK Government do not want to exclude companies where it has awarded "competition funding" but this again presents a number of significant challenges

[5] https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32018L2001

in the application of equitable requirements for UK low carbon fuels. The government cannot “pick winners” in this regard and must allow a level playing field for UK producers.

We agree that the TRA, rather than the DfT, is the expert group within the UK government to identify issues with tax-based support that could cause market distortions, and how these can be addressed. Existing procedures for UK market participants to raise concerns with the TRA are well established, and the TRA have the necessary processes in place to investigate and address these.

We note the comments regarding support for production under the SAF revenue certainty scheme and the CCUS business model. In particular we welcome the comments regarding maintaining a level playing field while ensuring support for these technologies. However, we are unsure why Hydrogen produced under the low carbon hydrogen business model has not been included in these considerations, as the same issues would apply for this technology. Low carbon hydrogen will be an important feedstock for HVO or SAF manufacture and must be included to ensure the level playing field. Given the sectors involvement in these technologies, we would welcome the opportunity to discuss these issues in more detail with the DfT Low Carbon Fuels Team.

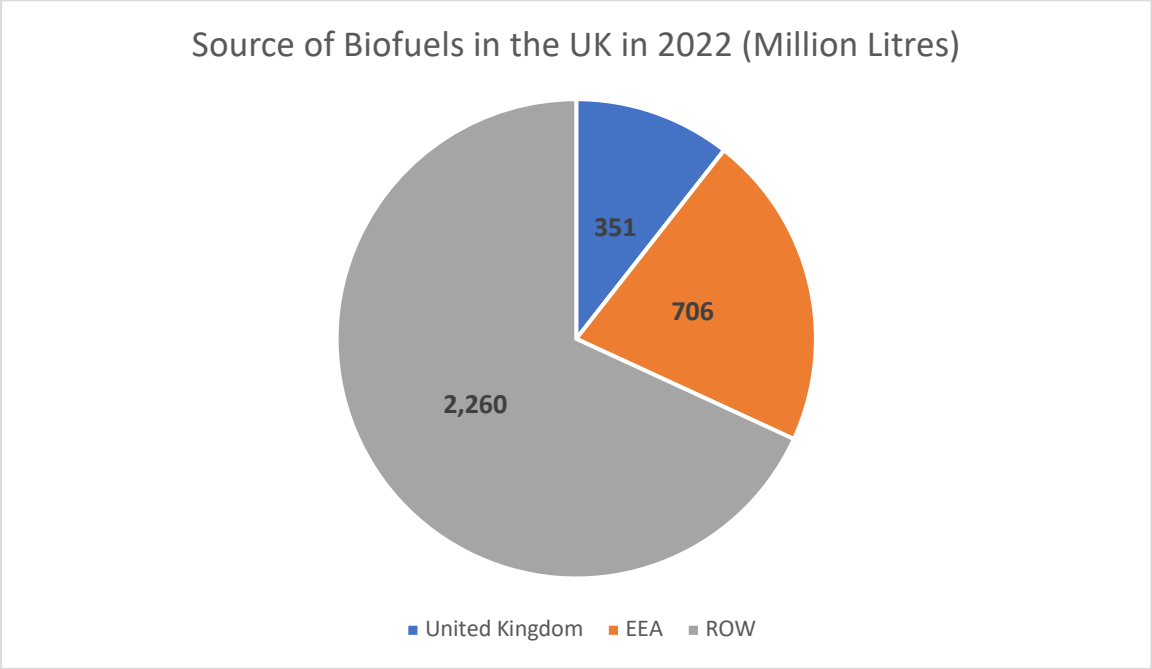
Option 1 offers the best balance of the factors listed above.

Option 3 has additional risks of EU produced fuels as identified in the consultation. Option 2 includes tax-based issues which UK low carbon fuel importers may not be aware of at the time of submitting claims for RTFCs in good faith and are part of wider economic concerns.

2. **Would any of the options impact the fuels that you either produce or supply under the RTFO, or intend to supply under the SAF mandate? Provide reasoning and evidence for your answer.**

Fuels Industry is unable to provide detailed guidance on the specific impacts of the options for reasons of commercial confidentiality. However, we have analysed the trade flows inherent in the UK low carbon fuel supply.

We have analysed the 2022 RTFO data [6]; based on the sustainability data provided low carbon fuels sourced in the UK comprised 10.6% by volume of the fuels used in the UK, with 21.3% coming from the EEA and 68.1% coming from the Rest of the World.



We note that the current UK biofuel production capacity is around 1,500 million litres a year [7], although around 800 million litres of that capacity is comprised of two bioethanol plants which would be subject to the RTFO crop cap. We also note that future advanced biofuel production has the potential to add a further 1,000 million litres per year by 2030 [8].

[6] https://www.gov.uk/government/statistics/renewable-fuel-statistics-2022-final-report

[7] https://assets.publishing.service.gov.uk/media/5a7d740b40f0b64a5813f19b/uk-biofuel-producer.pdf

[8] https://assets.publishing.service.gov.uk/media/5a821afb40f0b6230269adda/advanced-drop-in-biofuels-uk-production-capacity-outlook-2030.pdf

Therefore, disruption to imported low carbon fuels through the addition of further requirements including the claiming of multiple incentives could have a very significant impact on the ability of the UK to meet its RTFO commitments through physical blending. Increasing the RTFO "buy-out" price further from its current 50p/litre to attract low carbon fuels which may be impacted by the restrictions could add to inflationary pressures within the UK economy.

The degree of reliance on imported feedstocks will increase further with the introduction of the SAF mandate, currently expected in 2025. The UK currently has two SAF plants in operation [9] and ambition for 5 to be in construction by 2025 but these will take significant time to come into large scale production.

3. Are there any alternative approaches that you think should be considered? Provide a short explanation if so, including evidence or data where possible.

One option for the DfT to consider is a simple approach, where an environmental benefit of any product (e.g. the Greenhouse Gas Reduction of fuels) can only be counted under one program and/or national inventory such as the RTFO scheme for ground transportation fuels used the UK. This ensures the integrity of the low carbon fuels market and that any stated GHG savings are robust.

[9] https://questions-statements.parliament.uk/written-questions/detail/2024-02-13/hl2447