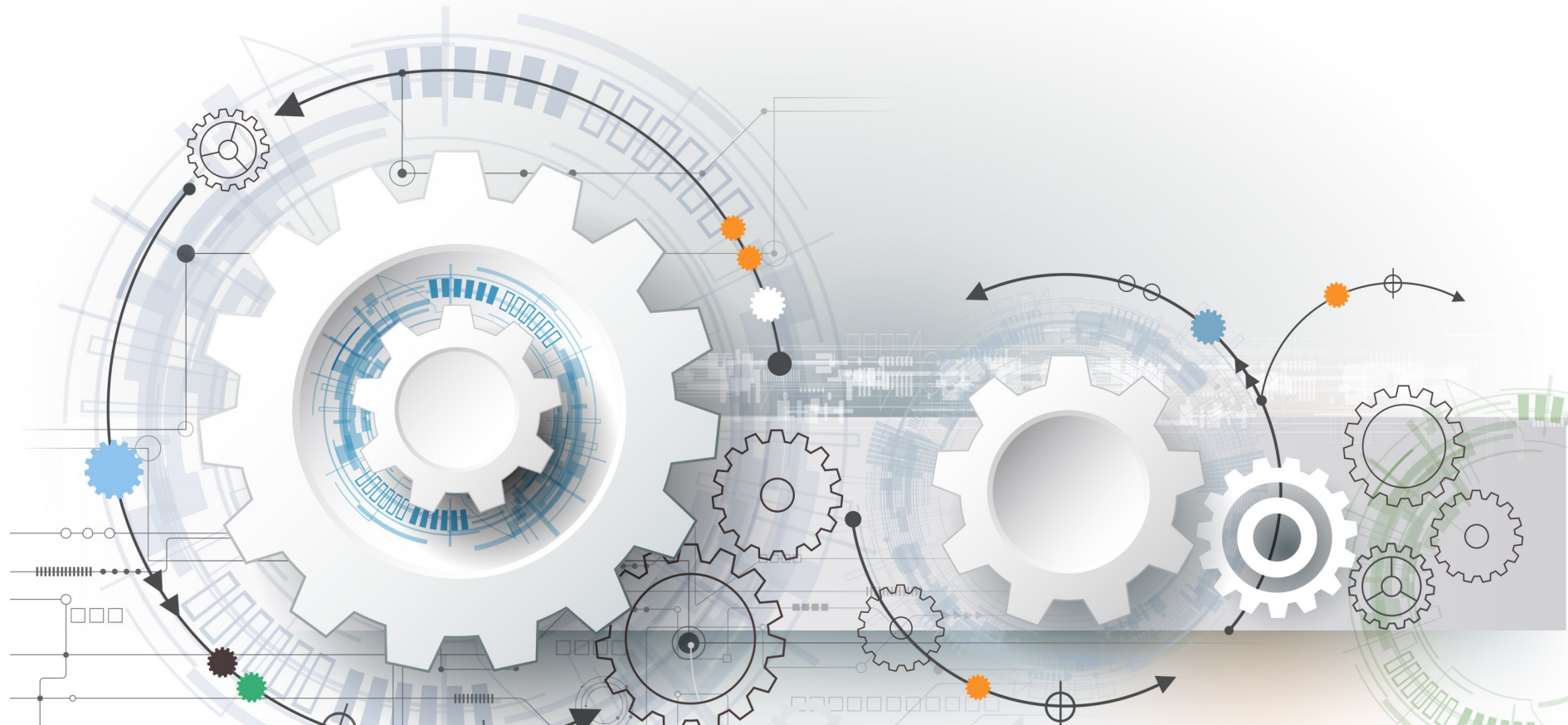


UK **pia**

Fuelling the UK's Economic Engine



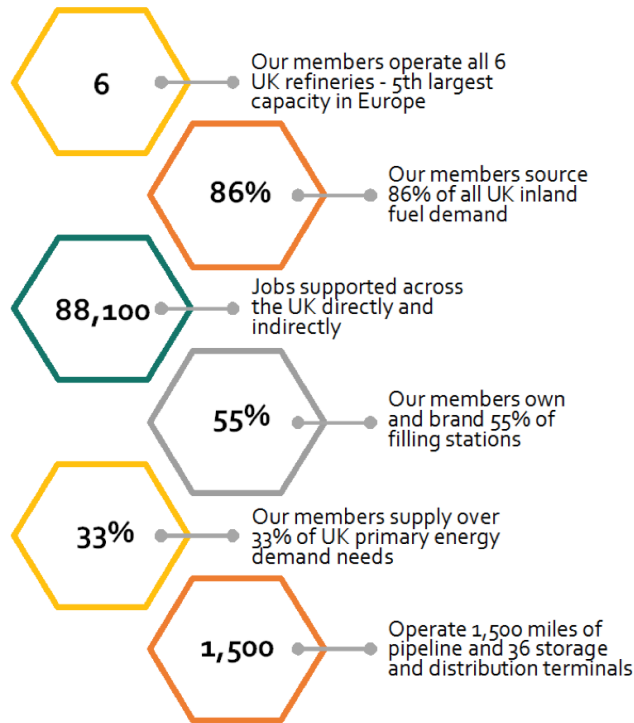
About UKPIA

The UK Petroleum Industry Association (UKPIA) is the trade association representing the main oil refining and marketing companies operating in the UK.

UKPIA represents the 8 refining and marketing companies which own and operate the six major crude oil processing refineries in the UK. Our members source 86% of all inland market demand for petroleum products and own ~1,200 of the UK's 8,494 service stations. The UK refineries produced 63 million tonnes of refined products in 2015. Through UK service stations, 120 million litres of petrol and diesel are sold every day. UKPIA members support the employment of over 88,000 people in the UK.



Fuelling the UK's economic engine

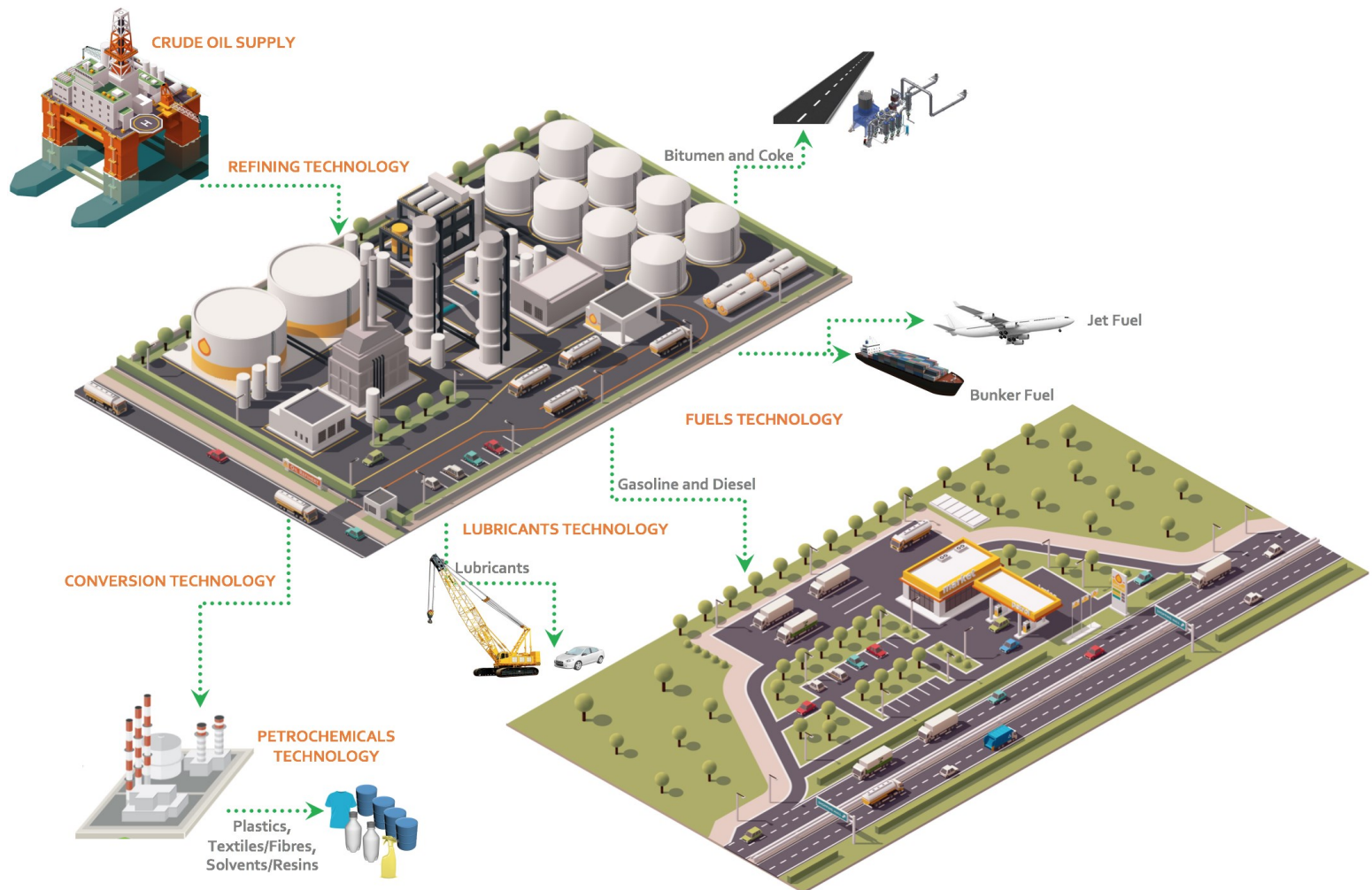


Oil products are essential to meet society's everyday needs and currently provide for more than one-third of the UK's current primary energy needs. The downstream oil sector plays a pivotal role in powering the UK's economic engine by supplying the transportation fuels and the crucial feedstocks for other industry sectors and processes which greatly contribute to the nation's economic growth. From lubricants, petrochemicals and heating fuels, to road and construction, paints and solvents, and carbon electrodes for the aluminium sector, the refining industry is responsible for providing the building blocks for countless products we depend on in our everyday lives. The transportation sector alone, which accounts for nearly 40% of final energy consumption in the UK, relies on petroleum products to meet 96% of its energy needs. Equally as important is the downstream oil sector's role in wealth generation and employment, for both local communities and the nation as a whole. Today, our domestic oil refining and marketing assets make a substantial contribution to the UK economy supporting the employment of 88,100 people, many with highly specialist skills and technological expertise, and many more jobs in related industries that depend on a strong, competitive refining and marketing industry. The annual contribution of UKPIA members to the economy is some £2.3 billion, with each large refinery estimated to inject ~£60 million locally, in addition to the value of its production's output. If the activities of the UK's North Sea oil production sector are included, an additional £9 billion can be added to the annual contribution to the UK economy.

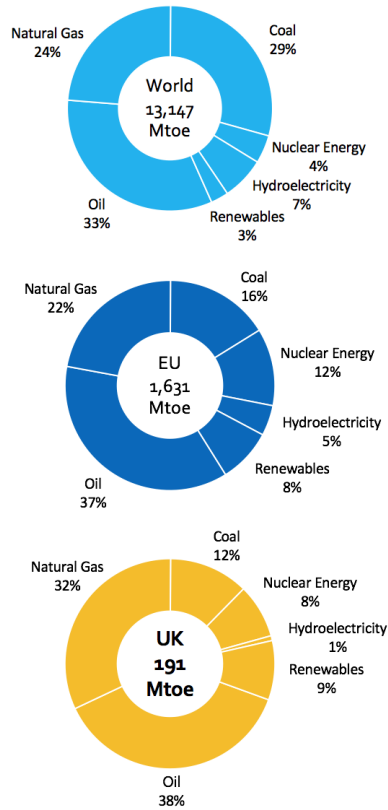
Yet this is only part of a wider energy story. Looking ahead, global primary energy demand is expected to increase by a further 32% to 45% to 2040, with oil representing an essential part of the world's energy supply mix. During the same period, transportation is expected to continue being largely fuelled by petroleum products. Estimates by the IEA indicate that petroleum products will continue to provide about 80% of the world's demand for transportation fuels, 90% in the UK's case. UK refineries are also, on average, less emission-intensive (0.21 tCO₂ per tonne of product) than non-UK refineries (0.29 tCO₂ per tonne of product) and carbon leakage, in the event of a refinery closure in the UK, has been estimated at about 135 per cent. That is, every 100 units of CO₂ emissions reduced in the UK are replaced by 135 units outside it, resulting in a net increase in global emissions.

For this reason, sustaining and maximising domestic production will be crucial to ensure a reliable, resilient and secure source of energy supply to power the nation's economy and growth.

The downstream oil sector



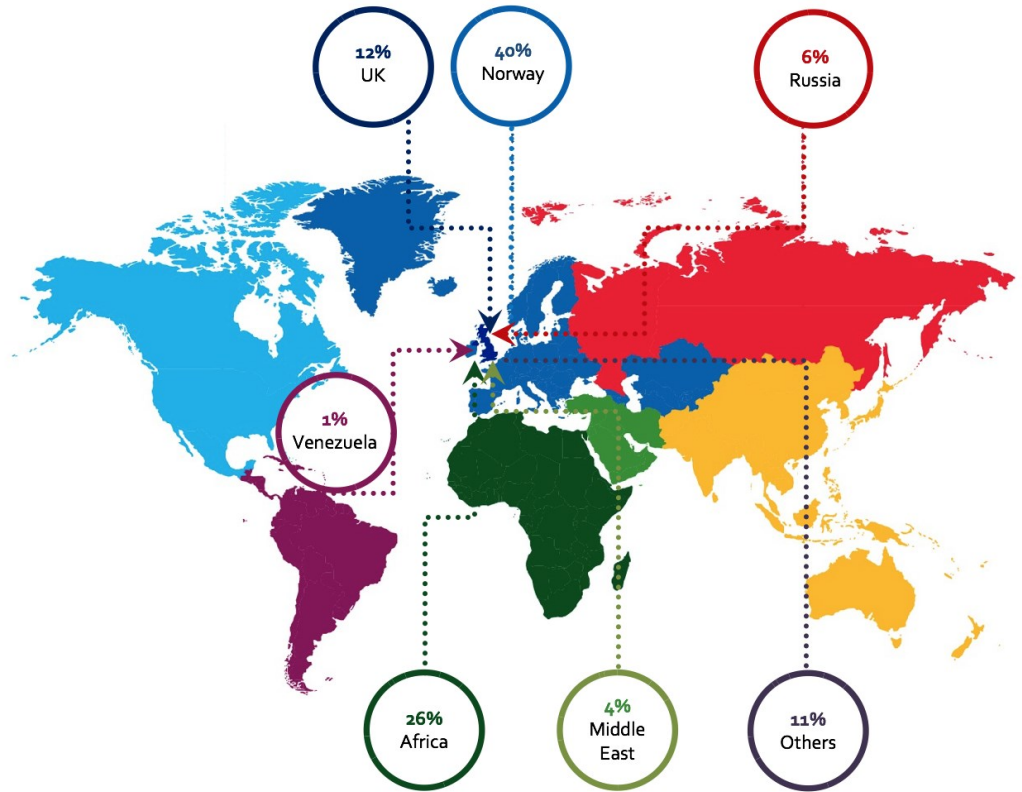
Crude oil from a number of different sources is refined using high temperatures, pressure and catalysts to produce the many different products that we rely on in our everyday lives. The ability to refine crude oil in the UK is vital to our energy security and resilience and has important economic and industrial advantages. Refineries, pipelines, terminals and service stations provide the vital infrastructure powering our nation's mobility and fuelling our economic engine.



Energy consumption by fuel type in 2015

Oil remains the world's number one energy source, accounting for ~ 33% of global energy consumption. In 2015, oil accounted for 38% of total energy consumption in the UK, followed by natural gas (32%).

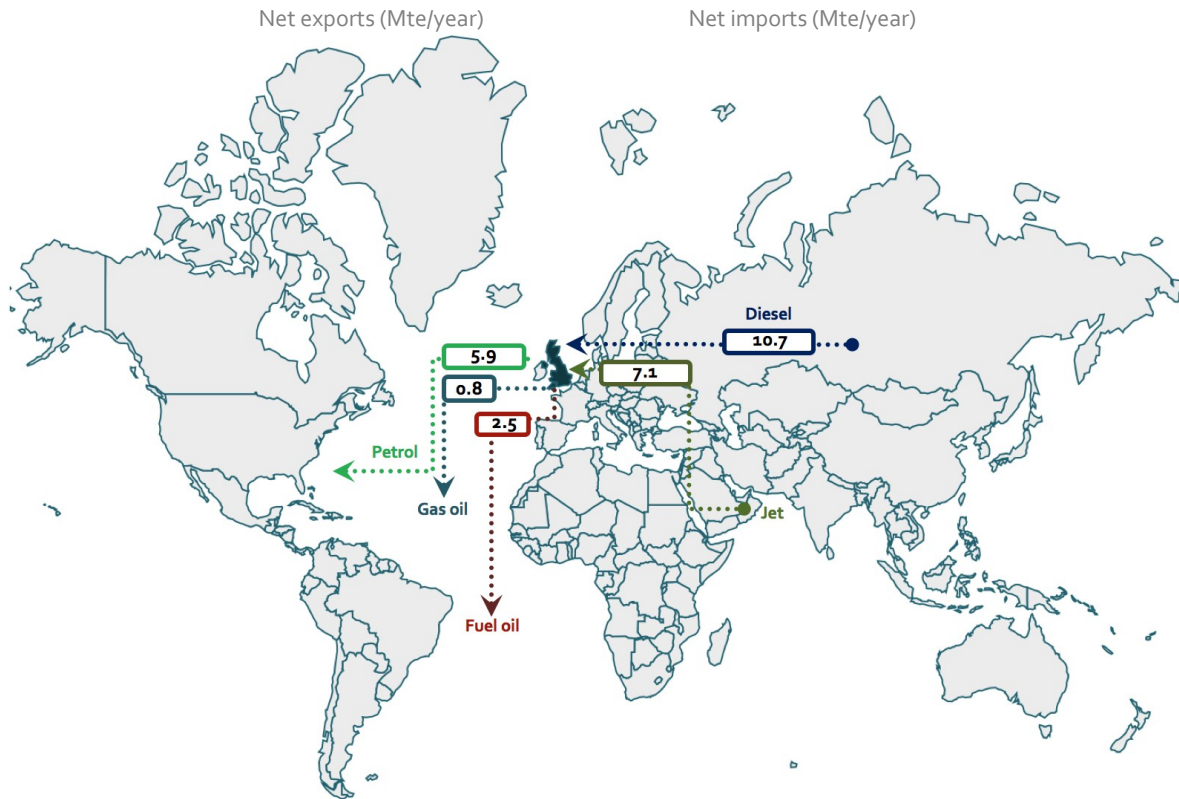
Source: BP, *Statistical Review of World Energy* (2015)



Sources of crude oil in 2014

In 2014, around 52% of UK refinery crude throughput was from the North Sea; around 40% from Norway and 12% from the UK Continental Shelf. Currently, 26% of crude oil processed at UK refineries arrives from Africa, 6% from Russia and 4% from the Middle East.

Source: BEIS, *Digest of UK Energy Statistics* (2016)



UK net product flows in 2015

The UK is one of the largest importers of jet fuel in the OECD and one of the largest exporters of petrol. It also imports over 45% of its diesel demand. The Middle East is the biggest source of jet fuel, while Russia is the UK's biggest source of diesel. A considerable portion of the UK's total exports is petrol exported to the United States.

Source: BEIS, *Digest of UK Energy Statistics* (2016)

Total vehicle miles travelled in Great Britain

318.5 billion vehicle miles

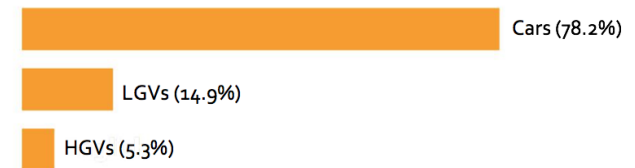
Number of motorists

38 million motorists

Litres of petrol and diesel sold every day

120 million litres

Share of traffic by vehicle type



Motoring in 2015

318.5 billion vehicle miles were travelled on Britain's roads in the year ending March 2016, with total traffic increasing by 1.8% compared to the previous year. Over 120 million litres of petrol and diesel are sold every day in the UK.

Sources: DfT, *Road Traffic Estimates* (2016); UKPIA (2016); DVLA, *Driving Licence Data* (2016)

Shaping our future

In shaping our future relationship with the European Union and links with global markets, as well as in realising a meaningful industrial and energy strategy that works for the whole UK, a collaborative approach between government and industry will be critical.

This will ensure that challenges can be tackled, risks can be managed and opportunities can be seized to the benefit of generations to come.

Above all, a commitment to support the competitiveness and sustainability of the downstream oil sector will be pivotal to the nation's energy security and resilience and our long-term economic growth and prosperity.

Towards an industrial and energy strategy

Essential to achieving a meaningful strategy for the future will be the creation of an environment where industry can deliver and thrive, getting the nation's energy policy right, recognising the strategic value of the downstream oil sector, today and in years to come, and realising a secure energy future through a clear, stable and well-designed legal, fiscal and regulatory framework.

In this report, we set out the key priorities for the downstream oil sector.

Key priorities for a new relationship with the EU

Collaboration: a collaborative approach and ongoing strategic dialogue between government and industry will be critical to realising a secure future for our nation's energy needs and our industry. This will ensure that risks are identified, opportunities seized and that the challenges that lie ahead can be mitigated. In preparing for negotiations with the EU, the engagement of devolved nations will also be important to navigate the changes ahead coherently and successfully.

1

Stability: minimising the period of uncertainty is essential in order to maintain investor confidence and the consequent sustainability of our vital oil infrastructure. Industry competes globally and it requires a stable, long-term legislative framework and regulatory level playing field both domestically and internationally to enable it to succeed and plan for the future. Indeed, while companies are used to managing certain types of uncertainty - such as changes in the market, evolutions in technology and the broader competitive landscape - they depend on a predictable legislative framework and respond to a reliable, supportive policy environment. Therefore, as a first step, transposition of all EU legislation is advisable to ensure a smooth transition. This will have to be followed by a closer analysis and review of legislation at a later stage to ensure its fitness for purpose and that it meets the above characteristics.

2

Access to key markets for goods and services: the barrier-free movement of goods, people and capital across borders has been important for industry for decades and several businesses operate both in the UK and across Europe. For this reason, as we redefine our relationship with the EU, retaining these benefits should represent a priority for government and the devolved administrations.

3

Key priorities for an industrial strategy

A long-term strategic vision: crude oil needs to be converted into the usable products we rely on in our everyday lives and refineries, somewhere, are required to process it. However, whilst the downstream oil sector plays a leading role in powering the UK's economic engine, and is critical to the nation's energy security, mobility and economic growth, it has been notably missing from previous industrial strategies' considerations and continues to be absent in discussions and pronouncements on energy policy. Yet the UK's energy security of supply and economic performance will greatly benefit from maintaining the health of the sector. For this reason, we call for a long-term industrial and energy strategy that recognises the value of this strategic industry, today and in years to come, and creates the right environment for it to be able to deliver and thrive.

1

An industrial and energy strategy which prioritises competitiveness and sustainability: a sound industrial strategy for the UK must prioritise competitiveness and sustainability and be based on clear guiding principles, including a competitive free market operating within a clear, stable and well-designed legal, fiscal and regulatory framework that best serves the interests of consumers, suppliers, investors, and local communities alike, with respect to economic prosperity, energy security and environmental protection. If such a framework is lacking, it not only discourages investments but disadvantages domestic manufacturing with respect to other world regions with which our industries compete. This, in turn, has the potential to further erode our energy resilience, industrial fabric and subsequent opportunities for employment and growth. It is also essential that an industrial and energy strategy for the UK ties in with all government departments' jurisdictions and objectives in order to create a broad and coherent vision for success. A sound strategy for the future must also tie in with the jurisdictions of local, regional and devolved nations in order to produce consistent and pragmatic results.

2

Growth: regulatory predictability helps create an environment that favours investment and growth. It is essential that industry is able to compete on a level playing field with EU and other global actors and that policies refrain from distorting the market. As part of a strategy for growth, regulatory impact assessment must be used as part of policy design to identify impacts of planned action and avoid unintended consequences. Further, the application of the Regulator's Code must be fully enforced and monitored to avoid negative impacts on regulated businesses and hence the prospects for economic growth.

3



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