

Establishing a strategic view for the EU refining industry

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I would like to thank the Commissioner and his team in once again offering our industry this forum where we can discuss and share the issues facing us. We have heard from the Member of the European Parliament Mrs Gardini about the competitiveness challenges we are up against today. For my contribution, I would like to focus on the longer timeframe but start with recapping some history.

The company known today as BP has been refining petroleum in Europe since 1922, when construction of the Llandarcy refinery in South Wales was completed. Today BP operates some 900Kbd of refining capacity in the EU, being over half of our global refining footprint, with advanced, complex, energy efficient refineries in Netherlands, Germany and Spain. We supply and market fuels and petrochemicals in 10 countries in Europe, as well as lubricants, aviation fuels and traded products in many more.

In the early years of our industry and through two world wars of the last century, energy supply security was the dominant policy concern. In the last 30 years or more, environmental issues and environmental policy have, rightly, become progressively bigger drivers.

We are not an industry inflexible to change.

As a demonstration of this I would like to recap some of the changes, challenges and initiatives to which our industry has responded over the last 30 years or so:

- A push for alternative fuels (hydrogen, LPG, CNG, Methanol)
- The transition to unleaded petrol across the EU, with the introduction of “Eurograde” premium 95 octane petrol
- The introduction of virtually sulphur-free gasoline and diesel
- The introduction of the flagship GHG reduction policy for Europe – the ETS
- Dieselisation – major investments to shift the fuels production profile toward diesel fuel away from gasoline
- Numerous crude oil spikes and troughs, “peak oil” supply concerns, not to mention the current oil price environment we face today!
- The push for Biofuels – investment in logistics, blending, and production, changing specifications and standards

- The drive for Electricity in Transport, seen as a potential “silver bullet”
- Marine sulphur emissions and the need for low sulphur marine fuels
- Increased import competition from the new, large refineries in Asia and the Middle East
- And, most recently, COP21, and a global agreement to limit GHG emissions.

Please don't get me wrong, some of these changes were essential, absolutely the right thing to do. Nobody could argue about removal of lead and sulphur. For some others though, the “big idea” that required the industry to change, is now questioned. There is still public debate about the merits of biofuels from food crops. Electric cars are progressing only very slowly into the fleet, and even then only with very heavy subsidies for each car. And the combination of air quality concerns in cities, and the increasing costs of meeting new emission standards with diesel cars is now leading us to expect some change in fuels demand away from diesel and back toward gasoline, potentially making past investments in diesel production unnecessary. We have tried so many alternative fuels, building facilities and then removing them, after discovering that customers have limited interest, or after they turn out to be uncompetitive, less sustainable, or both.

So now let's turn to the future and look ahead for the next 20 years or so.

BP's Energy Outlook 2035 sees oil demand growing at just under 1% per annum, out to 2035, mainly driven by transport growth in emerging economies.

At the same time there are White Papers from the Commission, for 2050, proposing the following:

- A complete elimination of internal-combustion powered transport in cities.
- A sectorial target of a 60% (pre COP 21) reduction in GHG emissions across all modes of transport (vs 1990 levels).
- A continued focus on electrification of light transport as central to the transport strategy.
- A new focus on alternative fuels.

If all this is achieved, there will be virtually no demand in Europe for gasoline, with some continued demand for middle distillate fuels for heavy duty transport, aviation, marine, agriculture and construction. With no gasoline demand, refining of petroleum would have very challenging economics

indeed, and we would most likely see a large number of refinery closures as we increase our imports of middle distillate fuel dramatically, from outside the EU. And this scenario would be on top of what the BP Energy Outlook already shows, namely a likely oversupply of refinery capacity out to 2035 as expansions happen and operations become more efficient. And, anyway, it is far from clear what technologies will deliver these objectives.

So what have we learned from the mistakes of the past?

Surely the key lesson here is that society's use of and need for fuels, and the role of refining has evolved, and we can expect further evolution. But rapid changes, seeking a revolution in transport energy, often don't work out that way, and have a tendency to cause wasted investments. Meanwhile technology to create a more and more sustainable use of petroleum also evolves.

We now see that modern technology for vehicles, and the fuels they rely on, continues to bring very high value to society and the EU economy. For most uses of the barrel there is simply no economic alternative. This was true with crude at \$100, but with the current price outlook petroleum products provide even greater value. There are still efficiency gains to be made, of course, and these continue to be very cost effective ways to reduce GHG emissions.

In terms of clean air, we shouldn't forget that new gasoline vehicles have made remarkable progress for some years now, and for diesel vehicles, even though there is more to do, the technology exists to bring them to the same standards, through full implementation of Euro 6, with Real Driving Emissions and a new test cycle.

And nothing else can raise taxation revenue quite like petroleum road fuels, taxed at over 200%. So many Member States would struggle to balance their budgets without revenue from motor fuel taxation.

So we believe that there is a long term need for our refineries in Europe. Our industry can play a constructive role for Europe's economy and also for our environmental objectives.

In conclusion, our simple request is that we develop a realistic long term view and strategy for the petroleum refining and fuels industry in Europe, working with the EU institutions, recognised by a wide range of stakeholders, such that companies and investors can plan their business investments with the confidence that they will have a long life and be of value for the long term.

Margins will no doubt remain unstable - refining is a global business - but let's at least provide Europe's refining industry with regulatory stability leading to greater investor confidence.