

Renewable Transport Fuel Obligation

Stakeholder Workshop: 10 January 2007

1. The workshop was introduced by Malcolm Fendick, Head of the Cleaner Vehicle and Fuels Division. He thanked stakeholders for their contribution to the development of the RTFO and explained that the Department was close to finalising details of the scheme. A consultation paper and the draft RTFO order would be published in February, followed by a three months' consultation period. The intention was to finalise the legislation over the summer so that the Order which would bring the obligation into effect could be laid in Parliament in the autumn.

2. The aim of the current workshop was to seek views on two issues:

- the definition of the obligated company
- the calculation of the obligation

These were covered in two presentations by the RTFO Programme Director, Rupert Furness. Greg Archer, Director of the Low Carbon Vehicle Partnership (LowCVP) gave a presentation on the impact of the definition of an obligated company on carbon and sustainability reporting. Malcolm Watson from the UK Petroleum Industry Association (UKPIA) gave a presentation on the oil industry's view of the obligation level.

Definition of an obligated company

3. Rupert Furness explained that under the Government's original proposals ("Plan A") an obligated supplier was defined as any supplier paying duty on fossil-based transport fuel. The obligation was to be calculated as a percentage of the total volume of fuel on which duty had been paid to HMRC.

4. However, "Plan A" created a number of practical difficulties for the largest fuel suppliers because of pooling and sharing arrangements. Their view was that this would result in:

- lack of control over biofuel blend in fuels where these were "lifted" from another company's refinery/terminal
- lack of control over sourcing of biofuel blended into volumes lifted from other refineries/terminals
- blurred responsibility for carbon and sustainability reporting and increased administrative costs in passing information between companies
- the need to renegotiate commercial arrangements

5. An alternative approach had therefore been explored. Under "Plan B" the obligation would be placed on the company which refined or imported the fuel rather than on the company which paid the fuel duty. In many cases this would be the same company, for instance where a company owned a refinery and sold fuel from that refinery at one of its own forecourts. However, where a company "lifted" fuel from another company's refinery, the obligated supplier would be the refiner rather than the duty payer.

6. Under both Plan A and Plan B the obligation point would remain the same (i.e. the fuel duty point), as would the total volume of biofuel required. But, under Plan B, the size of each company's obligation would depend primarily on how much oil it refined or imported rather than the amount of fuel on which it paid duty. Fuel imported but not supplied to the UK market would remain outside the obligation

7. Both plans had advantages and disadvantages. Plan B:

- gave obligated a far greater degree of control over "their" biofuels.
- gave refiners better control over refinery planning / scheduling
- provided clearer lines of accountability: it would not be possible for obligated companies to "blame" other obligated companies for sourcing unsustainable biofuels.
- was administratively simpler for obligated supplier (although more data would be required from them)
- was likely to involve fewer obligated supplier in total
- reduced the paper chase with C&S reporting
- avoided extensive renegotiation of commercial contracts

8. However, disadvantages included:

- a requirement for more complex information than under Plan A
- moving the obligation further from the retail market: companies that did not have a retail presence might be less vulnerable to public pressure to improve the C&S performance of their fuels
- greater complexity and cost for the RTFO Administrator, because of the need to reconcile large amounts of data.

9. Overall, Plan B appeared to reduce the administrative burden on obligated supplier despite greater volumes of data required. It also gave obligated supplier more direct control over their biofuels. The Government therefore intended to consult on the basis of Plan B.

Effect of Plan B on Carbon and Sustainability Reporting

10. Greg Archer, Director of the Low Carbon Vehicle Partnership, explained how the two approaches would impact on carbon and sustainability reporting. He explained that eight companies supplied 90% of fuels to the market. He told stakeholders that:

- both plans provided an effective interim solution to monitor and manage the sustainability of sourced fuels that could evolve in the future
- a decision to proceed with either scheme design must balance the benefits between the effectiveness of C&S reporting, the administrative burden on companies, the administrative and cost burden on the RTFO Administrator and susceptibility of the system to fraud.
- on balance, the LowCVP Secretariat, considered that Plan B probably represented a small weakening of the C&S reporting compared with Plan A
- the actual effectiveness of C&S reporting under Plan B (compared with Plan A) largely depended upon the attitude of the companies whose obligation would significantly increase: Conoco-Philips, Ineos, Greenergy & the new Coryton owner

Discussion points

11. Stakeholders were divided about the merits of the two schemes. Points made against Plan B included the following concerns:

- the supermarkets (which were not obligated under either Plan A or Plan B) were more likely to be able to exert pressure on oil suppliers to use good quality sustainable biofuels if they were one step away from the obligated company as they would be under Plan A than if they were two steps away from the obligated company as they would be under Plan B.
- under Plan A there was a closer relationship between the obligated supplier and the public so that the public was more likely to be able to provide pressure about bio fuel quality.
- higher quality biofuels cost more so that there was a danger that the refiners would adopt the lowest common denominator
- Plan B would involve more administrative work
- Plan A empowered retailers more
- the exchange contracts would have to be renegotiated so it would be possible to include specifications on biofuel content
- if the oil companies were in favour of Plan B that alone was a cause for concern

12. However, some stakeholders considered that:

- Plan B strengthened carbon and sustainability reporting because it was clear where responsibility lay
- Plan A would not have led to strengthened consumer demand because it was not possible to know what came out of the oil pipe and supplying companies would have had no choice but to provide averages on carbon and sustainability reporting
- Plan B represented far greater control for obligated companies
- under Plan A companies might have kept the best biofuels for themselves and palmed off the worst biofuels on others
- Plan A would require complicated contractual agreements while under Plan B contracts would be barely affected
- Companies in the public eye would strive to show the best sustainability in order to protect their brand equity. This would include retailers applying pressure on the supply chain for demonstrably sustainable sources.
- the oil companies were ready and willing to meet the obligation. Under Plan B there were winners and losers but overall the objectives were better served under Plan B.

Calculating the obligation

13. Rupert Furness explained that Government policy was to ensure that biofuels represented 5% of total fuels by the year 2010. There were two ways that this could be done:

- the obligation could be expressed as a percentage of each company's total fuel sales; or
- it could be expressed as a percentage of each company's fossil fuel sales

14. The original proposal had been for the obligation to be expressed as a percentage of each company's total fuel sales. This would have meant that in 2010/11 for every 100 litres of fuel an obligated company sold, 95 were to be from fossil and 5 from renewable sources.

15. An alternative (advocated by UKPIA and others) would be that the obligation should rest not on total fuels, which would include biofuels, but on fossil fuel alone. Under this calculation an obligated company could sell 100 litres of fuel and would then be obligated to include a further 5 litres of biofuels, making 105 litres in total. The 5 litres of biofuel would represent 4.76% of total transport fuel sales.

16. The RTFO team recognised the arguments in favour of expressing the obligation as a percentage of fossil fuel sales only. However Ministers wanted to ensure that "5% really meant 5%, and not 4.76%. The intention was therefore to express the level of obligation as 5/95ths (rather than 5/100ths) of fossil fuel sales.

17. Expressed as a percentage, 5/95ths equalled 5.2632% (rounded to 4 decimal places). The draft RTFO Order was therefore likely to include this number, and similarly calculated percentages for 2008/9 and 2009/1. Rupert Furness stressed that this would not represent a higher target than before, nor was it inconsistent with the EU regulations which limited the biofuel content to 5% by volume in standard blends. He pointed out that this regulation was itself subject to review.

18. He went on to say that there were a number of ways that the industry could meet the target whilst meeting EU standards. They included:

- banking certificates in the years before 2010/11 when the obligation level was lower
- buying certificates from biofuel producers
- supplying blends which contained higher percentages of biofuels for niche markets.

UKPIA Presentation

19. There followed a presentation by Malcolm Watson representing UKPIA. He made the point that the Government could set the level of the obligation at any level it chose, but that if it set the level at over 5% the target would not be met.

20. He explained that under European regulations the biofuel content was limited to 5% in both petrol and diesel. The biofuel content would be treated in the same way as any other specification and would need to be met on every batch. In practice this meant that the oil industry would aim to add just under 5% biofuel in each batch in order to keep within the specification.

21. He argued that the RTFO target should therefore be set as 5% of fossil fuel sales or 4.76% of total sales. Setting a higher target would not result in more biofuels, just a missed target.

22. He believed that changes in the oil standards were unlikely as they were constrained not by the oil companies but by the motor industry. He made the point that the oil companies were committed to cooperating with the Government on the introduction of the RTFO but that a 4.76% target would in itself be highly challenging and there was no guarantee that it would be met.

Discussion points

23. Stakeholders were again divided. Stakeholders who were in favour of introducing the obligation at 4.76% made the following points:

- the oil industry liked a challenge but an achievable challenge: 5% of total sales was not achievable.
- banking certificates early was not a practicable or sustainable option. Adding biofuels was going to need additional investment in the terminals. The inclusion of additional biofuels could not be switched on tomorrow.
- the 2.5% rate was challenging for some companies and they were going to have bring on ethanol very quickly. This would require modifying over 50 terminals which in turn would require planning permission and that took time.
- Progress is needed at the European level to raise the 5% limit

24. Points made by those who believed the obligation should be set at the higher level included the following:

- the obligation has been deliberately set to promote high blends. The oil industry should have seen it coming; Britain would be among the lowest users of biofuels in Europe. Oil companies should have sought planning permission to modify their terminal earlier
- the buy out price should be recycled to holders of certificates as this would increase the incentive to comply among the big oil companies
- it would be possible for the oil majors to meet the obligation through the E85 and other high-blend fuels. The Government needed to actively support the market for these higher blends
- the higher target was needed in order to allow trading in certificates to take place
- the gap between the 4.76% and 5% target represented 120 million litres. Small producers were capable of producing the necessary biofuels which would allow oil majors to buy certificates - provided they were given a contract and that the Environment Agency did not close the small producers on H&S grounds.
- as it was likely that the duty incentive would disappear, the only incentive for small producers lay in the possibility of selling certificates and therefore the higher targets should be introduced.