TRANSPORT & ENVIRONMENT

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Briefing

Implementing the FQD

Context

Article 7a of the revised EU Fuel Quality Directive (FQD) obliges transport fuel suppliers to reduce lifecycle greenhouse gas emissions from transport fuel by 6% by 2020. In October 2011, the European Commission proposed detailed implementing rules for the legislation. The legislative process is now on hold until the end of 2012 while the Commission makes an impact assessment on the implementation rules.

What should the EU do?

The stated objective of the FQD is to reduce carbon emissions. For this to happen, the EU needs to ensure that all greenhouse gas emissions associated with various sources of fuel are accounted for accurately and transparently. For fossil fuels, that means 'default values' that reflect the higher carbon emissions of sources such as coal-to-liquid and tar-sand oil when compared to conventional oil. That is the approach taken by the EU's implementation proposal and should be approved as soon as possible. For biofuels, which can also be used by fuel suppliers to meet their low carbon fuel target, carbon values should also reflect all carbon emissions, including from Indirect Land Use Change. See our separate briefing: www.transportenvironment.org/publications/biofuels-dealing-indirect-land-use-change-iluc

Background

What are 'default values'?

According to the Commission's proposal, all different fuels and sources of fuel (or 'feedstocks' as they are known) get different 'default values' for their carbon intensity measured as the amount of carbon per megajoule of energy produced.

Are producers still penalised if they can do better than the default value?

No. The proposal also contains an option to report actual rather than default values for those fuels that have higher default values than conventional oil. The purpose of this is to reward cleaner production processes, so for example tar sands projects with carbon emissions better than the default value can use this option. The proposal also includes incentives to reduce harmful emissions from flaring and venting of gases during the oil extraction process (very common in Nigerian oil fields for example). It also requests a review of the proposed methodology by the end of 2015, so the default values and range of sources covered could be updated as the science evolves.

Is Canadian oil being unfairly targeted?

No. The proposal does not discriminate between feedstocks on the basis of geographical locations. The specific default value for tar sands is not just in place for Canadian products, but for all fuels that are produced from tar sands anywhere in the world. Other countries with vast tar sand deposits include Venezuela, Russia and the US.

Why do tar sands get a separate default value?

An important reason that tar sands get a specific default value now is that they are produced from a different feedstock, so-called natural bitumen. Producing petrol and diesel from this feedstock requires much more energy than producing it from conventional crude oil, which in turn means that the carbon intensity of the final product is higher than that produced from conventional crude.

What are the Commission's figures for tar sands based on?

The value of 107 g CO2/MJ is based on the industry average for tar sands production that could be processed in EU refineries. The figure comes from a peer-reviewed study by Stanford University for the European Commission. A similar study was also done to determine the carbon intensity of oil shale. The studies found that tar sands are 23% more GHG intensive and oil shale 50% more intensive than the average for conventional crude currently used in the EU. A recent review of 13 scientific studies (http://docs.nrdc.org/energy/ene_10070101.asp) found tar sands fuels to be 18 to 49% more GHG intensive than the proposed EU default value for conventional oil.

In a global market, won't tar sands just end up being sold to other countries?

This proposal, if implemented, will give a signal to fuel suppliers that the market value of their products depends on their carbon intensity. Fuels with higher carbon intensity can still be exported to other countries such as China, but at a lower price, which will make it less attractive to produce compared with low carbon fuels.

This is not the first time the EU has set quality standards for fuel products entering its market. It did so previously for lead in petrol. That measure also led to a price differential between cleaner and dirtier fuels, making dirtier fuels less attractive to produce.

California also has a low carbon fuel standard, and other regions around the world are likely to follow, as they have on other fuel issues.

Will costs just go up with no environmental benefit?

No. The proposal will make attainment of the target cheaper, not more costly.

First, if all petrol and diesel from fossil sources is treated the same, compliance can only be achieved through blending in biofuels or supplying low carbon electricity. Offering lower-carbon fossil fuel and opportunities to count the reductions in flaring towards the target becomes an option too with this law.
Second, it is illogical to claim that the proposal will lead to large price differentials between low and high carbon fuels on the one hand, and that such large price differentials will have no environmental impact on the other hand. The exact price differential is difficult to predict but it will be the mechanism of price differentials between low and high carbon fuels that will spur investment in low carbon fuel and deter investment in high carbon fuel.

Is the administrative cost too high?

No. A study commissioned by T&E says that the administrative cost of the FQD would add less than half a eurocent for a 50-litre fill-up or a maximum of 1.6 eurocents per barrel of oil. The industry has claimed a figure of $1 a barrel, but has not published research to back it up. See the detailed T&E briefing here: www.transportenvironment.org/publications/lower-carbon-fossil-fuels-big-benefits-low-administrative-costs