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The Committee on Climate Change
7 Holbein Place
London
SW1W 8NR

Our Ref: ST/WJ/1761

11th September 2017

Re: Call for Evidence – Welsh Carbon Budgets

Dear Sirs,

1. About Valero

1.1. Valero Energy Ltd owns and operates Pembroke Refinery in south west Wales, as well as six terminals across the UK, and the Mainline Pipeline which links Pembroke with the Manchester and Kingsbury terminals. Valero markets fuel in the UK and Ireland under the Texaco brand, with around 850 independently owned and operated Texaco-branded service stations in the UK. In total, Valero employs approximately 800 people in the UK and supports several thousand other jobs at the refinery, terminals and service stations.

1.2. We welcome the opportunity to respond to the Committee on Climate Change's second call for evidence regarding Welsh Carbon Budgets following the passage of the Environment (Wales) Act. Our selective response to the Committee's consultation concerns those topics that impact on Valero's operations in Wales, and contains what we consider to be an important contribution to the debate on Welsh environmental policy.

2. Climate science and international circumstances

Question 1: Does the Paris Agreement mean that Welsh emission targets should keep open a deeper reduction in emissions than 80% by 2050? Are there implications for nearer-term targets?

2.1. The Paris Agreement sets ambitious commitments for the reduction of global greenhouse gas (GHG) emissions. As such, we would be concerned should national or devolved legislatures adopt policies above and beyond the requirements of such internationally agreed treaties in locations where Valero operates.

2.2. To expect industrial sectors to operate in a national or devolved-level regulatory environment that exceeds globally agreed targets would penalise local industry with a more onerous legislative burden. The risks to the Welsh economy from gold-plating internationally agreed targets – in this case by requiring individual sectors to reduce GHG emissions greater than 80% on the baseline level – are considerable. Such measures rarely succeed in their intended reduction of GHG emissions, but simply lead to the transfer of emissions to other localities with less stringent environmental regulation (known as 'carbon leakage'), at the expense of increased financial pressures on domestic industries and employment.

2.3. The UK already has some of the most stringent GHG emissions targets of the major industrial nations. Valero urges Welsh policymakers not to use the Paris Agreement to go beyond current UK regulatory requirements, either for the interim or 2050 targets, which would place industry located in Wales at a competitive disadvantage with operators in England and Scotland, as well as with competitors across the EU 27 nations and globally.

2.4. For policymakers to fulfil their stated ambitions – not least as set out in the Well-being of Future

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Generation (Wales) Act 2015 – in ensuring future sustainability between environmental, social and economic goals, the Welsh Government should recognise the long-term and central role industry can play in achieving GHG emissions reduction whilst maintaining resilience in the Welsh economy. Unilateral actions that extend beyond international agreements or mechanisms such as the Paris Agreement only serve to disrupt the level playing field between Welsh industry and other competitors, creating conditions of economic self-harm with no long-term benefits for the global environment.

Question 2: Do you think that leaving the EU has an impact on the targets or how they can be met?

2.5. The UK decision to end its membership of the EU offers a number of challenges and opportunities for UK and Welsh policymakers, not least in the area of GHG emissions reduction legislation. Valero believes that the EU Emissions Trading Scheme (ETS) has proved an effective and revenue neutral mechanism for reducing GHG emissions from the power and industrial sectors at the lowest cost to society. Additionally, membership of EU ETS provides qualifying sectors with adequate 'carbon leakage' protections.

2.6. As the UK transitions from membership of the EU to non-membership status, Valero advocates that policy areas within the remit of devolved institutions remain consistent with EU ETS standards to maintain the benefits of a successful market-based international mechanism that preserves industrial competitiveness, in line with Welsh Government objectives on jobs, economic growth and industrial strategy as well ensuring continued protections from unintended consequences such as 'carbon leakage'.

2.7. Policies that place Wales above and beyond EU efforts will undermine Welsh based industry and cause economic harm, whilst the resulting 'carbon leakage' to other localities with less stringent environmental regulation will not result in any global environmental benefits.

3. The path to 2050

Question 3: In the area(s) of your expertise, what are the opportunities and challenges in reducing Welsh emissions in the nearer term (e.g. to 2030)?

3.1. Achieving required GHG emissions reductions is a significant challenge facing the refining sector. Indeed, substantial investments are already being made by the refining industry to meet existing stringent decarbonisation requirements at devolved, national and international levels. For Valero operations in Wales, ensuring compliance with environmental regulations is prioritised alongside other responsibilities including adhering to safety legislation and maintaining competitiveness in a challenging global market.

3.2. Imposing additional regulatory burdens on industry in order to meet interim targets in Wales that disrupts long-term efforts to reduce GHG emissions can only be counter-intuitive. Industry requires the maximum amount of flexibility and support to ensure long-term targets are met. Welsh carbon budgets that do not allow sufficient versatility in meeting long-term targets, by diverting industry efforts to meeting medium-term objectives, will weaken overall efforts to achieve the 2050 target.

3.3. Industry has every incentive to increase energy efficiency that helps meet domestic and international statutory climate change targets whilst also improving competitiveness. Valero is already making significant investment decisions to improve the competitiveness of operations whilst leading to net GHG emissions reductions nationally, for example the proposed introduction of a Combined Heat & Power (CHP) Generation Unit at Pembroke Refinery.

3.4. Opportunities for further investment in energy efficiency in Valero's Welsh operations exists. However, policymakers should recognise the need to create and maintain an environment that encourages market investment in the Welsh industry sector and incentivises decarbonisation efforts, and avoids unintended consequences that otherwise deters such investment.

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Question 4: What is required by 2030 to prepare for the 2050 target for an emissions reduction of at least 80% on 1990 levels, recognising that this may require that emissions in some areas are reduced close to zero? Is there any impact of the need to go beyond 80%, either in 2050 or subsequently?

3.5. Recognition is due from Welsh policymakers that significant GHG emissions reductions have already been achieved in the industry sector following many years of compliance with stringent regulatory requirements. Achieving further reductions in the interim period (i.e. 2030) that avoids perverse outcomes for Welsh based industry, such as 'carbon leakage', will require carefully designed climate policies. If GHG emissions targets for the industry sector are extended beyond the 80% target or are set close to zero it creates the risk of substantial costs to society from displacing economic activity outside of Wales.

Question 5: What are the respective roles of UK Government, Welsh Government, the wider public sector, business, third sector and individual or household behaviour in delivering emissions reductions between now and 2030? And separately, between 2030 and 2050?

3.6. As policymakers determine future climate policies it is necessary to acknowledge that the balance between GHG emissions reduction whilst securing Wales' energy needs will require an industry sector for which petroleum-derived feedstocks may be difficult or impossible to substitute, certainly in the interim period. With substantial GHG emissions reductions already being made by industry, and commitments to existing EU and UK legislative requirements being adhered to, it is important that Welsh Ministers do not replicate international or UK systems that create additional burdens on key sectors. We would therefore urge the Welsh Government to ensure its voice is heard in this debate so that devolved and UK-level climate policies dovetail with one another, which are informed by international agreements.

3.7. For the oil refining sector, excepting a situation where major technological advancements allow for further significant GHG emissions reductions, the major efforts that can be made in the interim period to 2050 are continued efforts to promote energy efficiency improvements alongside a substantial focus across all sectors and interested stakeholders to adopt behavioural change that allows for realistic legislative targets to be met.

4. Emissions targets and actions

Question 6: As a business, as a Public Body, or as a citizen, how do emissions targets affect your planning and decision-making?

4.1. The economic cost of climate change policies and GHG emissions targets are an important factor to the oil refining sector's long-term planning and economics. Compliance with environmental regulations is of principal importance alongside other responsibilities as mentioned in 3.1. However, if legislative compliance costs require the refining sector in Wales to shoulder capital expenditures that severely affects or even eliminates industry margins, and which are not universally applied to competitors in other regulatory jurisdictions, then industry decision-making regarding future plans will be significantly disrupted. This ultimately affects the viability of continued operations of refining facilities.

Question 7: In your area(s) of expertise, what specific circumstances need to be considered when setting targets and budgets for Wales and how could these be reflected in the targets?

4.2. One of the greatest challenges facing the oil refining industry in Wales is the increasing regulatory and legislative burden being imposed on the sector at an international and UK level. Valero therefore reiterates its position that no additional regulatory or legislative impediments should be placed on Welsh-based industry at a devolved level that might place our operations in Wales at a further economic disadvantage in comparison to our international, EU and UK competitors. We urge policymakers to avoid proposals that seek to put Wales' climate change policies above and beyond the efforts of other

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UK nations and EU Member States. Welsh policymakers must not follow a path towards unilateral decision making that will only lead to marginal improvements – if at all – in meeting global emissions targets, whilst simultaneously placing Welsh based industry and the jobs they support in a position of further competitive disadvantage.

4.3. As climate change targets and carbon budgets are set for Wales, we repeat that the risks to the Welsh economy from gold-plating internationally agreed targets – in this case by requiring individual sectors to reduce GHG emissions greater than 80% on the baseline level – are considerable.

4.4. Specific consideration for Welsh industry needs to be made to avoid 'carbon leakage' to less environmentally rigorous locations which also contributes to significant economic damage to the Welsh economy. Climate policies and GHG emission targets should be designed in such a way to recognise the competitive challenges facing industry in Wales and accommodate for undesirable outcomes that will affect inward investment opportunities and potentially lead to economic activity being displaced outside of Wales.

4.5. Valero would strongly encourage maintaining parity with the existing EU ETS system – or perhaps creating a bespoke emissions credit system that is compatible with EU ETS – that would deliver a revenue neutral mechanism for providing Welsh industry with the flexibility to meet GHG emissions targets.

Question 8: The power and industry sectors in Wales are dominated by a small number of large emitters. What are the key challenges and opportunities that this presents in setting the levels of carbon budgets and how should the process of setting them reflect these?

4.6. Imposing exacting and onerous GHG emissions reduction targets on the small number of large emitters in Wales, in order to achieve a 'quick win' in reducing Welsh emissions, would result in a wholly negative and counterproductive set of perverse outcomes for the global environment and for Welsh society. In order to achieve long term GHG emissions targets it is essential for all of society to contribute to the required reductions. Simply targeting industrial sites only leads to displacing GHG emissions to other regulatory jurisdictions whilst undermining Welsh economic performance and would be a misplaced gesture that results in severe disruption to Wales.

4.7. For large GHG emitting sites, excluding the possibility a radical scientific breakthrough, the biggest potential mechanism for achieving significant GHG emissions reductions from industry remains the development of Carbon Capture and Storage (CCS) technology. However, policymakers need to recognise that the practicality of achieving substantial and cost-effective CCS benefits across the power and industry sectors in Wales are limited due to current technical immaturity and logistical difficulties in accessing appropriate geological sequestration sites relative to industry locations in Wales. UK Government and Welsh Government leadership, support and incentives to further the research and development of CCS and other abatement technologies will be essential to meeting long-term GHG emissions reductions targets.

4.8. Targeting a particular industry for achieving higher reductions than other industries with GHG reduction opportunities creates a barrier in achieving the desired reductions due to diminishing returns. Initial reductions may be technologically feasible, with latter reductions becoming more of a technological challenge and potentially unachievable. Consideration should be given to today's known technologies and their limitations, and not the expectation that future technologies will be capable of meeting stated reduction targets. Climate policy should remain fair and equitable with respect to the refining industry, to ensure that other industries outside the refining industry carry their fair share of the burden.

5. Wider considerations

Question 9: What evidence should the Committee draw on in assessing impacts on sustainable

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management of natural resources, as assessed in the state of natural resources report?

5.1. N/A

Question 10: What evidence regarding future trends as identified and analysed in the future trends report should the Committee draw on in assessing the impacts of the targets?

5.2. N/A

6. Conclusion

6.1. Once again, Valero is incredibly grateful for the opportunity to air our views in this important debate, and we would be delighted to provide any further details at the committee's request. We would welcome any reassurance from the committee that its recommendations to Welsh Government on carbon budgets and interim greenhouse gas emissions targets recognise the importance of maintaining a UK-wide level playing field for carbon emissions reduction.

Yours faithfully,

Stephen Thornton
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