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The Committee on Climate Change – Wales Call for Evidence
7 Holbein Place
London
SW1W 8NR

Our Ref: ST/WJ/1710

23rd February 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 therefore welcome the opportunity to respond to the Committee on Climate Change's 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. Form of emissions targets and carbon accounting framework

Is it better for carbon budgets be set on percentage or absolute terms, given that the interim targets are set as a percentage?

2.1. N/A

What else can be done to make targets resilient to future revisions to the greenhouse gas inventory?

2.2. N/A

3. Role for emissions trading and implications for the competitiveness of Welsh industry

What is the role of the EU ETS or other trading schemes in contributing to Welsh emission reductions and could this differ between sectors (power, industry)?

3.1. Valero considers EU ETS to be of central importance to the existing UK and EU energy and climate policy frameworks, and has proved effective in delivering greenhouse gas emissions reductions for the power and industrial sectors at the lowest cost to society. Appropriately reformed, EU ETS can continue to deliver its objectives and maintain industrial competitiveness, in line with EU and UK objectives on jobs, growth and industrial strategy, and Valero recommends Welsh climate policy maintains consistency with EU ETS standards.

Given that UK carbon budgets cover all of Wales's emissions and are set on a net basis, does this influence how accounting should be approached for Welsh climate targets?

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3.2. N/A

Given the UK context, should the design of Welsh targets and budgets reflect devolved competence?

3.3. Valero believes that consistency should be maintained with previous Welsh Government climate change strategies, and that the design of Welsh targets and budgets for carbon emissions reductions should be focused exclusively within the devolved competence of the National Assembly for Wales, as opposed to all Welsh emissions. The design of Welsh emissions targets and carbon budgets should reflect devolved competences and be consistent with the approach adopted by the UK Government and the Scottish Government. The potential consequences for 'double counting' of greenhouse gas emissions between various reporting agencies would have serious consequences for industry in Wales, without the further complication of emissions extending beyond Wales' devolved competencies. Creating multiple reporting obligations would also lead to additional administrative burdens for industry.

Are there any competitiveness implications for current traded sector business (e.g. industry) in having gross emissions targets in Wales, and if so how could they be minimised?

3.4. Valero considers that the imposition of gross emissions targets on industrial sectors would inevitably lead to serious competitiveness issues for current traded sectors. The investment climate for the refining sector is already extremely uncertain. The International Energy Agency (IEA) has forecast that EU demand for oil products will decline from around 33% of primary energy demand in 2014 to 25% by 2040 under its Current Policies Scenario. The rate of decline will largely depend on the effectiveness of broader decarbonisation, energy efficiency policies and provision of alternative fuels and technologies, in particular, for heating, power generation and transport. As a consequence, the European refining sector will continue to face major challenges, with continuing over-capacity and the inevitability of further refinery closures. However, the role of the UK refining and downstream oil sector will remain critical in supporting an orderly transition to a low carbon economy for decades to come.

Refinery operators have a fiduciary duty to their shareholders to make a return on their investment, but must also maintain their assets and implement safety, environmental and other improvements to ensure regulatory compliance, their licence to operate and to maintain competitiveness in a challenging global market. Any such investments also compete against other investment opportunities available to the refinery operator or their shareholders, both within the UK and further afield.

A strong and convincing economic case is therefore a pre-requisite for investment in decarbonisation and energy efficiency measures in the refining sector. Industry will invest if the right market conditions are established, but this will require an effective carbon price which is set and maintained at a level to incentivise greenhouse gas reductions. It is important that decarbonisation and energy efficiency measures are also established uniformly across all relevant competitors in both domestic and international markets, and nor should they compromise security of supply and resilience, given the importance of the sector to the broader economy.

7. What is the role for purchase of international offset credits to supplement action to meet Welsh emissions targets?

3.5. The use of international offset credits has played an important role in achieving net emissions reductions for some sectors. Any flexibilities provided under EU ETS or in measures replacing this following the UK's exit from the European Union should be retained to avoid competitiveness issues.

4. Scope of emissions targets

*In principle, should international **shipping** be included within Welsh emissions targets, and if so are there any practical difficulties with doing so?*

4.1. As a matter of principle, the Welsh Government should adopt a consistent approach regarding the inclusion or exclusion of international shipping within Welsh emissions targets to the UK as a whole to

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avoid unnecessary complexity and ensure alignment with international emissions reduction commitments. We believe strongly that greenhouse gas emissions from international shipping (IAS) should not be included with Welsh emissions targets. Valero's Welsh-based operations are highly dependent on international shipping movements to transport feedstock and finished products between markets, along with industry peers across the UK in the downstream oil sector. As noted in the call for evidence, the UK Government have already rejected the Committee on Climate Change's recommendation that IAS emissions be included within the scope of UK carbon budgets. Were Welsh carbon budgets to exceed UK requirements, Valero's operations in Wales – largely serviced by international shipping – would be placed at a distinct competitive disadvantage to other industry peers. In addition, with emissions from international shipping already subject to international emissions standards, including IAS emissions in Welsh targets would potentially create opportunities for 'double counting' of emissions, creating uncertainty and increasing costs, without achieving carbon emissions reductions.

*In principle, should international **aviation** be included within Welsh emissions targets, and if so are there any practical difficulties with doing so?*

4.2. As stated in 4.1., as a matter of principle, the Welsh Government should adopt a consistent approach regarding the inclusion or exclusion of international aviation within Welsh emissions targets to the UK as a whole to avoid unnecessary complexity and ensure alignment with international emissions reduction commitments.

5. Conclusion

5.1. 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 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.

5.2. 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.

Yours faithfully,

P.P. William James

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Refinery Public Affairs Manager

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