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17th January 2018

Biofuels Consultation
Heat & Transport Energy Policy
Department of Communications, Climate Action and Environment
29-31 Adelaide Road,
Dublin 2
D02 X285

By email: biofuel.obligation@dccae.gov.ie

Dear Sir/Madam

Valero Energy (Ireland) Limited response to the Irish Government Consultation on future increases in the biofuels obligation rate

Valero Energy (Ireland) Limited, a subsidiary of Valero Energy Corporation, markets fuel in Ireland under the Texaco brand. There are circa 140 Texaco-branded service stations in Ireland. Valero Energy (Ireland) Limited also supplies aviation fuel at Dublin and Shannon Airports, has an extensive commercial and industrial fuels business and holds an equity stake in one fuel storage facility in the Republic of Ireland. For more information, visit www.texaco.ie

Valero welcomes the opportunity to respond to this consultation.

General comments

Valero is supportive of the approach taken by the Irish government so far, which has been sensible and pragmatic, and balances environmental and economic imperatives.

However, when the biofuel obligation rate is increased, the following should be taken into consideration:

1. Any increase in obligation will result in higher costs for business and consumers. Increases in biofuel content will place additional challenges upon industry to ensure fuel integrity standards are met, particularly during winter months.
2. The introduction of E10 petrol will reduce the fuel efficiency of vehicles because of the relative energy content of ethanol to gasoline.

3. To meet the 2016 biofuel obligation, Ireland imported 82.5% of its biofuel requirements. Imports will continue to be vital in future years. With biofuel obligations increasing across Europe, the demand, and therefore cost, will likely increase.
4. While Valero in the US is a major producer of ethanol and renewable diesel, current trade tariffs effectively prevent these products, and those of other US producers, from being supplied to EU markets.
5. Wastes and other double count feedstocks will have an increasingly important role to play in meeting future obligations. It would be a great advantage to suppliers to have pre-approval of all qualifying EU double count products, rather than continuing with the current process that requires each new product to first be placed on the market. This would reduce the burden placed upon suppliers and also the cost of feedstocks.
6. The EU Directive 2015/1513 provides member states with the opportunity to include more stringent regulations. However, we strongly urge that maximum flexibility is retained for suppliers to allow for them to source cost effective alternatives that will avoid increasing the burden on motorists and industry. In particular any limiting of biofuel type could significantly impact cost and disadvantage the end consumer. It is important to ensure that regulations do not result in unintended negative consequences for either consumers or for wider society.

Question 1:

In order to meet Ireland's 2020 renewable energy target in the transport sector, it is proposed to increase the biofuel obligation rate to 10% from 2019 and circa 12% from 2020.

- Do you support this policy measure?
- What biofuels do you envisage contributing to meeting these increased rates?
- What alternative approaches do you view as being more likely to achieving Ireland's 2020 renewable energy target in the transport sector?

High blend drop-in fuels, which are more expensive, will be required to meet the increasing obligation. There are several factors which will influence the need for such fuels, or should these not be available, would trigger obligated parties to 'buy-out':

- Availability of qualifying double count UCOME waste feedstocks
- Ability to maximum blend, including during cold winter months. Currently, Valero ensures product integrity through the careful selection of feedstocks (further limiting access to available UCOME) and, where necessary by reducing the blend percentage from the 7% maximum allowed
- Access to qualifying double count ethanol, where we believe volumes are likely to remain very limited

One alternative approach might be to reward and incentivise the uptake of biofuel in rail and marine transport. Aviation could also be considered, however this is unlikely to be economically viable due to the fuel specifications, supply chain testing requirements and approvals. Furthermore, aviation biofuels are likely to share the same feedstocks and production processes as high blend biodiesel.

We would welcome clarification on when the obligation for 2020 will be set and whether the (circa 12%) target might be reduced to reflect potential market adoption of alternative fuel types including electricity.

Question 2:

In order to meet Ireland's 2020 renewable energy target in the transport sector, it is proposed to increase the biofuel obligation rate to 10% from 2019 and circa 12% from 2020.

- What impact do you believe this will have on fuel prices?
- What alternative approaches could provide a more cost-effective method of achieving Ireland's 2020 renewable energy target in the transport sector?

The demand for biofuel in Europe will increase as we approach 2020, as other member states implement their own plans to meet the obligation. The impact of the waste hierarchy being adopted throughout the EU will further add complexity as it requires alternate uses for wastes and residues to be considered before energy. Indeed, the reduction of waste production in many cases will reduce other negative environmental impacts.

The demand for drop in fuels, such as Hydrotreated Vegetable Oil (HVO), is likely to exceed supply. HVO trades at a premium, particularly during winter months due to its cold weather properties.

Given these issues, we would urge any policy to allow maximum flexibility in feedstock selection in order to ensure the lowest possible fuel cost while achieving the legislated biofuel obligation.

We welcome the Irish government's position that it is not attempting to set a mandate beyond 2020 at this stage. It is important to ensure that any decisions are based on sound science and commercial availability.

Question 3:

In order to maximise the contribution of the *Biofuels Obligation Scheme* to Ireland's renewable energy target in the transport sector, it is proposed to restrict / reduce the current level of use of carried over certificates in 2020.

- Do you support this approach?
- What would be the appropriate level of carryover for use in 2020 and beyond?
- If you feel the current level should be maintained, please provide reasoning including an alternative approach to maximising the contribution from biofuels to achieve Ireland's renewable energy target in the transport sector.

The current carry over approach adopted by the Irish government has been beneficial to obligated parties and has also protected end consumers from potential short-term price spikes.

Our strong preference would be to continue with the current carry over in 2020 and beyond.

The 'in-year' 2020 only EU mandate would place an additional cost burden upon industry and therefore potentially on consumers. Continuity of approach has significant value and the objective of increased renewable content is not a single one year goal.

Question 4:

The recently amended *Fuel Quality Directive* (Directive 98/70/EC) places obligations on suppliers to reduce emissions – specifically the reduction in carbon intensity of at least 6% to be met by 31 December 2020 compared to 2010.

- How do you envisage this requirement being met?
- Are there any measures that Government could take to assist obligated parties reach the Fuel Quality Directive target?

This GHG reduction is a single one time target that we do not anticipate will be continued within the EU post 2020.

Alternate compliance measures will be required in 2020, however we have significant concerns with what is currently proposed at an EU level for the following reasons:

- There is currently no EU market for Upstream Emission Reduction credits (“UERs”)
- It is unlikely that a market-based approach will develop to support a one time obligation
- UERs will be generated from existing projects. Economics for new projects will not be supported by a pan-EU one year mandate.

Question 5:

Increasing the biofuel obligation rate is likely to involve the introduction of fuels with higher concentrations of biofuel (such as E10 which is petrol blended with 10% ethanol and B7 which is diesel blended with 7% biodiesel). This may lead to compatibility issues with older vehicles, consumer cost, the necessity of consumer awareness in order to ease its introduction, and potentially the development in forecourt infrastructure.

- What do you view as the technical and consumer challenges associated with increasing the biofuel obligation rate (including introducing fuels such as E10 and B7)?
 - Can fuels such as E10 and B7 be brought to the market in Ireland by 2020?
 - Are there technical barriers to achieving 7% conventional biodiesel blend (B7) averaged across the full year, including the winter months?
 - For biodiesel blend rates higher than 7%, are drop in biofuels a viable solution for Ireland?

Currently, B7 is blended (subject to the measures described in our answer to Q1) without causing compatibility issues. However, it is widely recognised that E10 is not suitable for all users of gasoline.

Winter blending of B7 limits the types of feedstock available to obligated parties – it is unclear whether these will be available within the EU in the required quantity, especially as other member states develop their own obligations towards 2020.

Any introduction of E10 requires significant government support to ensure success. Indeed it is key that the campaign be led by government. The lack of supply chain infrastructure to support a second petrol grade means that provision of an E5 protection grade is unlikely to be widely available for vehicles unable to use E10.

Consumer acceptance of E10 may be assisted by compensating for its lower energy content by applying a reduced fuel duty rate.

It is worth noting that the E10 awareness campaign has not taken place in the UK but remains at an early stage of development.

In France, which is one of the more mature E10 markets in Europe, the grade was launched in 2009 but the uptake today is still only 38.5%, despite a 4 5€cent duty incentive for this grade.

The lower energy content of ethanol, coupled with the limited supplies of high GHG saving feedstocks (because the majority is crop based, rather than waste), results in proportionally lower GHG benefits than can be obtained in diesel.

Drop in fuels, such as HVO, which should perhaps be considered as additional processing of UCOME/FAME (with associated additional production cost), provide a viable technical solution. However, they may not exist in the quantities required.

Question 6:

Since the publication of *A European Strategy for Low Emission Mobility* in July 2016, the European Commission has designated that food based biofuels have a limited role in decarbonising the transport sector due to concerns about their actual contribution to the decarbonisation. It is envisaged that a gradual reduction of food based biofuels and their replacement by more advanced biofuels will realise the potential of decarbonising the transport sector and minimise the overall indirect land use change impacts. The EU Commission has signalled that the trajectory of biofuels is away from first generation biofuels towards advanced or second generation biofuels. This is primarily to be achieved through the introduction of a cap on first generation biofuels and the incentivisation of advanced biofuels.

- How should the development of increased levels of advanced biofuels be supported in Ireland?

The EU adoption of the waste hierarchy principles targets similar indirect concerns associated with the use of crops. Can the feedstock be recycled or reused instead? It challenges suppliers to show that these are genuine, unavoidable wastes and that there is no better use for them other than energy.

The use of the waste hierarchy is key to ensuring that advanced biofuels are, and remain, fully sustainable. However, it will be very challenging to fully achieve this without overburdening industry and regulators.

We believe first generation biofuels, including those derived from sustainable crops, still have a significant future role.

Within your consultation you have referenced the steps being proposed through to 2032 by the UK government. Whereas we support the ongoing decarbonisation of the UK transport sector, we are extremely concerned about the restrictive crop cap, which is not aligned with current European thinking.

The UK Development Fuel sub-mandate is also not aligned with the EU and is not supported either by existing or anticipated fuels technology. This is likely to result in mass buy out and therefore effectively become a consumer tax. We therefore support the proposals for Advanced Fuels set out in the consultation.

We support the ongoing initiatives taken by Sustainable Energy Authority Ireland (SEAI) to promote energy efficiency, as an effective approach to carbon emission reduction.

We see very limited potential for the inclusion of bioliquids, in particular for heating, due to long-term storage constraints within this critical-use sector. In addition to meeting relevant fuel standards, we are obligated to supply products that are fit for purpose.

Where sub-sectors can support bioliquid inclusion, it should be noted that this is likely to place a significant burden upon the supply infrastructure. It would not be economically viable to develop and support infrastructure for new low volume specialty grades.

We thank you for allowing us to contribute to this call for evidence and for the opportunity to input on the questions raised. As the world's largest independent refiner and with a significance presence in the Irish market, we believe that our input is very relevant to the practicalities involved in achieving a successful outcome to any phased increase in the biofuel obligation rate.

