European oil firms voice unease over EU fossil fuel emission plan
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European oil companies are raising concerns over European Commission proposals to benchmark the carbon footprint of different fossil fuels as part of moves to reduce the region's greenhouse gas emissions.The benchmarking is part of an effort to meet Europe's 2020 target for green transport fuels, in part by lowering the carbon intensity of conventional gasoline and diesel supplies. The moves could subject fossil fuels to the same carbon performance criteria as biofuels, potentially lowering the value of some crudes depending on how and where there were produced, oil producers claim.

European leaders first approved in late 2008 the EU's ambitious target of generating 20% of the energy it uses from renewable sources by 2020. Under its Fuel Quality Directive, the EU's 27 member states will require fuel suppliers to reduce the life cycle carbon emissions per unit of energy from fuels by up to 10% by the end of 2020.

Although biofuels will help suppliers meet most of the obligation, it is the proposed methodology for calculating the carbon intensity of fossil fuels which has alarmed oil producers. The process is also being watch closely by European biofuel makers who want the CO2 credentials of fossil fuels regulated as the resulting benchmarks also will affect the type of fuels able to achieve the EU's 35% minimum carbon savings, compared to fossil fuels, under its Renewable Fuels directive.

In a consultation on the methodology the Commission launched in October, the EU proposed higher default emission values for unconventional oil, such as tar sands, coal-to-liquids and gas-to-liquids projects. Gas flaring as part of the production process also could be taken into account. "We are also looking at the geography of crude sources, but not particular fields, in addition to unconventional oil," a commission official said in an interview.

SHIFT TO UNCONVENTIONAL OIL/GAS

Under pressure to replace production with new reserves because of dwindling access to conventional fields in places like the Middle East, oil companies increasingly are turning to geologically more complex projects and unconventional sources, such Canadian oil sands and shale gas, which are more energy intensive and carry a higher C02 cost per barrel.

In Europe, both BP and Shell have oil sands operations and Shell is set to become a major GTL producer from its Pearl project in Qatar next year. A Shell spokesman in the Hague declined to comment on the potential impact of the methodology proposal, saying Shell was currently "monitoring the situation."

In response to the consultation, Europe's oil industry association EUROPIA strongly rejected a proposal to calculate the carbon emissions of gasoline and diesel in line with renewable fuels, claiming such moves would create "carbon leakage" to less-regulated regions. "Making lower greenhouse gas crudes more desirable in the EU would simply increase their market value, rendering supply more expensive for EU operators and encouraging ... "shuffling" of crude oils within the global market with adverse implications on European security of supply," EUROPIA said.

EUROPIA, which represents all the European oil majors, also claims the administration involved in tracking crude cargoes from source would make such an approach unfeasible and is urging the EU to use default carbon values for gasoline and diesel. Here, the oil industry feels supported by California's decision last year to adopted fixed carbon emission values for fossil fuels under its landmark Low Carbon Fuel Standard. The commission is currently meeting with EUROPIA and other parties to discuss its proposals and expects to present its final position before an EU Parliament committee by the summer.

BIOFUEL MAKERS EXPRESS CONCERN

Meanwhile, European biofuel makers are complaining that the current default values for fuels and unconventional crudes are too conservative, diluting the comparative carbon advantage of renewable biodiesel and ethanol over fossil fuels. The European Biodiesel Board said Thursday it wants the EU to apply the same sustainability criteria for biofuels to fossil fuels, one option that the European Commissison is considering.

Citing a recent study by the environmental consultancy ERA, the EBB said GHG emissions of unconventional fuels such as coal-to-liquids and oil sands require up to 2.5 times more than conventional fuels promotion. The study, which German bioenergy association BBE funded, calculates that conventional fossil fuels are responsible for up to 50% more emissions than the reference value for diesel in the current EU Renewables Directive. For unconventional fossil fuels, such as those derived from tar sands, the difference is up to 150%.

The study concludes that the EU should go further in assigning higher default values to reflect the increasing proportion of carbon intensive oil projects such as those using enhanced oil recovery technology and producing heavy crudes. Other factors such as the depth of the fields, the quality of the crude and gas flaring should also be taken into consideration, according to the study.

"A system that creates a heavy economic and administrative burden for biofuels and leaves fossil fuels free from this same burden would be a failure," EBB secretary-general Raffaello Garofalo said in a statement. The EBB said it was concerned over a lack of representation of the biofuel and agriculture industries in the working group developing the calculation methodology.