



**Response by the Irish Petroleum Industry Association
to
Department of the Environment, Heritage and Local
Government paper
*Ireland's Pathway to Kyoto Compliance***

September 2006

Members: Campus, ConocoPhillips, Emo, Esso, Maxol, Statoil, Texaco, TOP, Topaz

Introduction

The Irish Petroleum Industry Association recognises climate change as a major global issue that must be addressed with coherent and workable policies. From an international perspective, it should be noted that developing economies will drive the growth in global greenhouse gas emissions between now and 2030 and that post-2012, international climate change policy should reflect the promotion of global participation and the encouragement of more rapid use of existing, efficient technologies in both developed and developing countries.

Domestically and internationally, governments should not be seeking to subsidise or otherwise support one energy-related technology over another - it is the role of markets to select appropriate energy technologies.

The industry notes that transport accounted for 18% of greenhouse gas emissions in 2004, falling behind agriculture 29% and energy production 24%¹.

1. Principles

IPIA is keen to work with the Irish Government, the European Union and their agencies to determine and implement practical policies which take account of what is happening and is likely to happen elsewhere in the world.

- Legislative measures must not undermine Ireland's competitiveness in the global market.
- The market should be trusted to deliver a sufficient diversity of fuel supply.
- Government policies should be rigorously examined so that we can see the real trade-off between achieving some impact in reducing climate change against adversely affecting other environmental goals. This should be accompanied by thorough and convincing cost benefit analysis of particular measures.
- When translating internationally agreed measures into Irish policy, we should have regard for the minor contribution of transport to Ireland's total of greenhouse emissions.
- When determining base years from which emission levels are to be measured, Irish policy must take into account the particular taxation and other circumstances which may distort the market.

¹ *Ireland's Pathway to Kyoto Compliance*, Department of the Environment, Heritage and Local Government, Page 22. Published July 2006

2. Bio-fuels

Bio-fuels can be used as road fuels on their own only after the engine is modified. IPIA notes that some utilities use such bio-fuels in 'captive' fleets of vehicles. For the most part, road users want to use fuels which are readily available and which allow them to switch back to non bio-fuels without having to modify their engine. The key issue is the practical one of ensuring that the quality of hybrid fuels is such that they may be used without modification of a conventional engine, an approach set out in the 2003 Bio-fuels Directive. *"New types of fuel should conform to recognised technical standards if they are to be accepted to a greater extent by customers and vehicle manufacturers and hence penetrate the market. Technical standards also form the basis for requirements concerning emissions and the monitoring of emissions"*.

European wide agreement between car manufacturers, the oil industry and public authorities should give consumers the confidence that the warranty on their cars will not be affected by the use of fuels with a bio component. This should be the driving force in determining fuel standards.

Bio-fuels can be used in a blend with conventional fuels in existing vehicles up to the level of 5% inclusion without the need for technical alterations. However, there are a number of important points that any EU Member State should give consideration to before contemplating the indicative targets set out in the 2003 Bio-fuels Directive:

- Comparisons show that using conventional bio-fuels in road transport gives a lower carbon dioxide reduction at greater cost than using biomass in power generation.
- Current bio-fuels for road transport are 2-4 times more expensive than conventional petrol and diesel which makes them an expensive way to reduce carbon dioxide emissions
- Other options such as improving vehicle efficiency and influencing customer choice are more cost effective than bio-fuels in reducing emissions of carbon dioxide from road transport.

As regards public policy options, IPIA believes that any regulatory mechanisms to promote bio-fuels should support a level playing field, utilize market forces and stimulate innovation.

3. **International bunkering**

The Irish oil industry welcomes the recognition by the Department that Ireland's emission figures have been inflated by private motorists and hauliers buying fuel in this State but using it elsewhere. In particular, the figures reported annually by the Environmental Protection Agency have been too high owing to the fact that they have been based on fuel consumption in the state without regard for the cross border movements of fuel into Northern Ireland. It is in the Irish national interest that reported figures accurately reflect usage in the State. This is a matter for the Irish Government to address with the EU authorities.

4. **Fuel tax measures**

The oil industry notes the proposal – repeated in the 2006 paper - by the *National Climate Change Strategy* of 2000 to restructure fuel excise duty on a progressive basis in order to reduce the incentive for international fuel bunkering and encourage a shift to cleaner vehicles.

- Fuel bunkering is a problem for the Ireland only in as much as it distorts the national emissions figures. The sensible approach is for the State to ensure that the reporting structures are such that they reflect the reality of what is emitted. It would be most unwise to add a burden to the costs of industry and households on such a basis.
- The better approach to the encouragement of cleaner vehicles is at the vehicle purchase stage, where decisions can be influenced by a number of factors, for example better education via energy efficiency labelling or financially via Vehicle Registration Tax. IPIA notes the recognition by the Department that “tax incentives to encourage the purchase of cleaner and more energy efficient vehicles have the potential to increase the fuel efficiency of the vehicle fleet”. We also note that in July 2005, the European Commission published a proposal for a Directive [COM/2005/261](#) that requires Member States to abolish car registration taxes, establish a registration tax refund system; and restructure the tax base of registration and circulation taxes so that they be totally or partially CO₂ based.

A key element of the *National Climate Change Strategy* of November 2000 is the taxation of greenhouse gas emissions. The only in depth study² of this approach indicates that it would put many elements of the Irish economy at risk without generating significant environmental benefits.

² *The Competitiveness and Environmental Impact of Energy Taxation on Irish Industry*, Farrell Grant Sparks, published by IBEC 2000

5. Road Transport

Global increases in auto fuel taxes would tend to push Irish forecourt prices above the European averages. Price comparisons should not be made with the UK alone.

The road transport sector currently pays substantial taxes, unlike the other emission-producing activities. Transport fuels are subject to excise duty and VAT while aviation fuel, for example, pays neither tax.

The urban/rural dimension in Ireland is particularly important. Across the board fuel tax increases will penalise rural road users, who may already be paying the full external costs, including emissions costs, of their road use.

Measures which deal more directly with the emissions created by road users in congested cities, and which discourage urban car travel, are clearly to be preferred. These could include

- more direct charges in cities, through parking charges, tolls or road pricing
- public transport improvements.

The tax system in Ireland encourages the importation of used cars but does not facilitate their export. This distortion in the market encourages the use of older cars in Ireland and hence an increase in emission levels per car. This counteracts any public policy directed at encouraging lower CO₂ new cars.

IPIA supports measures at European level to improve fuel and vehicle efficiency.

6. Space Heating

IPIA accepts that natural gas can have some environmental attractions as a space-heating fuel in the industrial, commercial and residential markets which it serves. However, it is clear that large areas of the country cannot economically be reached by the pipeline network. Oil provides a flexible option in these areas and kerosene oil, in particular, has advantages over traditional methods of space heating in terms of efficiency.

The use of oil for space heating purposes outside the natural gas network helps to maintain a diversity of fuel supply which is critical from a national energy policy perspective. The price of natural gas moves steadily upwards whereas the end user price of heating oils may move in either direction – mirroring the movements of global refinery prices.

Any policy to raise taxes on energy products used for space-heating must take account of the characteristics of each fuel type and the current incidence of taxation on each fuel. At the moment oil products suffer significantly higher tax rate than, for example, natural gas.

There is considerable scope for technical improvements to conversion efficiency in space heating. IPIA support the various measures proposed to improve fuel efficiency in residential and other space-heating markets. There is a clear role for the industry in promoting the good management of heating systems and improved efficiencies.

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