Speech from Maria da Graça Carvalho

"Parliament's View on Safeguarding and Promoting Industrial Competitiveness in the EU"

Let me begin by saying that it is a great honour for me to have been invited to speak before you.

The main purpose of my speech today is to identify some of the ways in which the European Parliament might help meet the challenges that the European refining industry is currently confronted with. I have set this in the wider context of the ways in which the European Parliament can foster industrial competitiveness and ensure a suitable climate for investment in innovation and growth at a specifically European level, something that we very much require.

I shall begin by briefly considering something of the nature of the challenges faced by the refining industry and then go on to outline some of the positive measures that the European Parliament is currently able to pursue in order to promote an expanding, European economy. This involves: *either* measures that have already been put in place *or* measures that we might put in place in the near future.

To finish with, I have devoted some time to the specific problems faced by the refining industry with particular reference to three measures that will, firstly, reduce the tax imbalance between diesel and petrol, secondly, remove red tape and, thirdly, improve the refinery industry's ability to compete at a global level.

Challenges

With regard to the challenges faced by the oil refining sector, these are mainly the volatile nature of the demand and supply mechanisms in the industry alongside increasing competition in the global market. The weak demand in the market can be accounted for by the relatively high prices of oil – something that in itself tends to provoke a downturn in economic activity – alongside the constraints imposed by the current economic climate in Europe. This is not helped by such additional factors as falls in American demand (despite increasing demand from Asia, in particular), by the increase in alternatives to oil, increased car efficiency and the tax imbalance between petrol and diesel.

One of the main reasons for these difficulties has been the increase in global competition with large refining companies downsizing European operations and turning their attention instead to emerging markets and higher margin areas.

The ability to meet this competition is hampered by the fact that given that whilst European refineries have to meet stringent environmental standards – something that further increases their costs – their competitors do not. Foreign industries are also liable to enjoy strong growth in demand for domestic oil products alongside large tax breaks for refiners and oil products and cheap credit facilities. This gives rise to complaints that there is an absence of a level playing field.

Whilst it is essential that we move towards full decarbonisation in the short to medium term – if we are to ensure a resource efficient and environmentally sustainable economy – this inevitably impacts on the oil industry. The same industry is currently struggling – on account of pessimistic market expectations and a slowing economy – to find the investment that is required to carry out the operational improvements in terms of fuel quality, industrial and C02 emissions that have been imposed on it. Indeed, it is often claimed that the industry is generally overburdened with legislation.

What can be done at EU level for Industry in general

So what can we do at an EU level to alleviate this state of affairs? *At a general level*, the simple answer is that we must anticipate the changing nature of the market. A comprehensive vision is needed, focusing on investment and on innovation. Such a goal involves mobilising all the levers available at EU level, notably the single market, trade policy, competition policy, environmental and research policy in order to promote the competitiveness of European companies.

New Investment devoted to Industrial Competitiveness

Here, it is imperative that the EU provides the right framework **conditions to encourage new investments** in order to bring new technologies and innovation onto factory floors and boost resource efficiency. R&D policies are a priority of the utmost importance given that R&D is the most important driver for innovation at the level of different companies. However, despite the fact that European research has been excellent and has been responsible for many new technologies used in industries worldwide, our past record has not always been so good when it comes to translating scientific leadership into industrial advantage. Indeed, we must speed up industrial innovation and ensure the timely deployment and commercialisation of key technologies. This is why H2020 covers the whole cycle from research to market and one of its three pillars is entirely devoted to industrial competitiveness.

The Need for a Skilled Workforce

Secondly, new technologies cannot be developed and brought to the market if the European work-force does not possess the **necessary skills**. These are the pre-requisite conditions to economic recovery. Measures to increase **investment in human capital and skills** are the key drivers for growth, employment and competitiveness: they lay the foundation for productivity and innovation. Job creation policies and tools to anticipate skill requirements are necessary to equip the labour force for industrial transformations. In particular, they will enable us

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in to fully exploit the potential of new technologies and the green economy whilst tackling youth unemployment.

Investment

Thirdly, investment and innovation are not possible without adequate **access to finance and greater availability of capital**. However, as you will be aware, one of the obstacles that we currently face is difficulty in raising capital. We will not be able to accomplish necessary and productive infrastructure and innovation projects unless we find the funding we require to turn ambitions into reality.

Public resources must be mobilised to sustain investment in innovation and, in this respect, the nature of the next EU budget (from 2014- 2020) will be crucial. It is essential that this instrument is adequately funded with simple and flexible budget rules and that the funds are used to finance those polices that will have a direct impact on increased growth.

This being said, numerous reports and surveys show that **access to capital** markets and credit constitutes a *major problem for European business.* There are at least four measures that might be taken to **speed up recovery and growth**:

a) The EU is currently engaged in a whole series of reforms of financial services in order to ensure that financial markets become more efficient and reliable;

b) We are also in the process of setting up a union banking system that will provide *supervision and coordination of the financial sector*. This will allow the re-establishment of a healthy financial sector, one that makes *credit readily available in the economy*. We need to make sure that the financial markets have the right incentives in the real economy rather than engaging in market speculation. In this respect, the EU has developed a number of innovative financial instruments that will enable industry to lever investment. These include the Risk Sharing Facility and Project Bonds;

c) A single portal will be launched providing information on *how to access finance* from the different EU programmes in each country. The implementation of the Action Plan on Access to Finance remains a high priority at European level if we are to improve the availability of finance for business.

d) To end this section on financing, the private sector also has, of course, a crucial role to play. It remains the case that, in the end, it will only be by *unlocking private funds* that we will be able to ensure the level and sustainability needed to finance investment by EU companies in the short and long terms. In particular, venture capital markets should be made use of in order to stimulate private investment.

What can be done at EU level for the refining sector in particular

Let me now turn to a brief consideration of how the EU *can specifically help the refining sector*. As I see it, one of the major obstacles for the competitiveness of the refining sector in Europe is the tax imbalance between petrol and diesel alongside excessive bureaucracy and the absence of a level playing field due to EU stringent environmental standards.

There are 3 measures that I consider of major importance in seeking out a solution of these problems:

1. Firstly, the Revision of the Energy Taxation Directive
2. Secondly, the increase of bureaucratic checks
3. and, finally here, the adoption of Sectoral approaches

a) In April last year, the European Commission proposed a revision of the Energy Taxation Directive, with the clear aim of updating existing legislation to address concerns in the energy industry. In this respect, minimum tax rates for energy would be based on the energy content of a fuel (€/GJ) rather than the volume. This means that a fuel will be taxed on the basis of the amount of energy that it generates, and greater energy efficiency will automatically be rewarded. The energy component of the tax will help to remove current distortions for competing energy sources (and, in particular, petrol and diesel) and will make taxation fairer for consumers. The directive was not adopted by the Council on the 22nd of June 2012 but the European Parliament and Commission will insist on reaching an agreement.

b) With regard to the question of reducing *unnecessary bureaucracy*, the EP has called for the implementation of thorough 'bureaucracy checks' so as to prevent any additional administrative burden at the EU and national levels alike. Used effectively, these will contribute directly *improving the competitiveness of EU industry* and the refinery industry in particular. These checks – which we strongly support – should be introduced when considering the combined impact of policies that affect the EU refining sector with the aim of limiting the unintended consequences of EU legislation.

c) As for the last of the measures that I have invoked, *sectoral approaches* can contribute to reconciling climate action with competitiveness and economic growth. In this respect, sectoral approaches should contribute to creating a level playing field at international level. For instance, industrial sectors subject to carbon leakage should not be linked to the CO2 reduction target of the country where the industrial site is located.

Instead, a worldwide agreement for each industrial sector should be set up comprising objectives of emissions for all the installations of the sector worldwide and the use of best available technologies. Successfully applied, industries in different geographical areas will no longer be unduly penalised for assuming their responsibilities.

At the same time, such a sectoral approach is also a promising tool for delivering climate action. Sectoral approaches hold the potential to assist in the transition towards a low carbon economy and pave the way to a global carbon market. Sectoral approaches might **also** be part of a post-2012 international framework for climate action. I would urge European Industry to take a strong and determined lead concerning such sectoral approaches.

Conclusion

By way of conclusion, let me sum up something of what I have said. The refinery industry faces a number of difficult challenges, challenges that belong, to a significant extent, to the changing nature of the international market. The response to these challenges involves promoting greater innovation, competitiveness and growth. In so far as the refining industry is concerned, the European Union is able to further these goals by, firstly, modifying the tax regime in such a manner that it rewards energy efficiency and contributes to redressing the imbalance between diesel and petrol. The EU can also contribute to removing unnecessary red tape hence reducing costs. Finally, a sectoral approach will allow us to remove distortions in which it is those areas of the world that assume their responsibilities with regard to levels of emissions that are penalised.

Thank you very much