



Does the UK need a refining industry?

- **The UK will be reliant on fossil fuels well beyond 2030**
- **The UK benefits from its flexible refining and distribution system which enhances security of product supply**
- **The UK refining and downstream oil sector makes a significant contribution to the economy, supporting the employment of over 120,000 people and providing a strong base for other industries**
- **UK refining is a complex, capital intensive and highly competitive international business, but does not benefit from high crude oil prices**
- **UK moves towards a low carbon economy depend upon refining and marketing companies to provide the products and infrastructure required**
- **The future health and survival of UK refining requires on-going investment, fostered by confidence in the application of consistent, clear, long-term policy from government**

Oil is vital to the UK's future

Consumer demand for oil products will continue to grow

Fossil fuels will continue to meet the majority of energy needs for decades to come. The International Energy Agency(IEA) has forecast that oil demand will continue to grow from the current level of about 80 million barrels per day, perhaps by as much as 50% by 2030, driven by strong demand from developing countries such as China.

Oil will continue to meet the majority of the UK's transport needs for decades to come

The IEA study shows that oil products will power the bulk of transport for many decades to come. Alternative fuels such as natural gas and biofuels are likely to remain as niche fuels in the medium term.

Day-to-day life is also dependent upon other refined products

The UK has a need for a diverse range of petroleum products aside from transport fuels which are produced in UK refineries, such as fuel oil for power stations, liquid petroleum gas for heating cooking and vehicles, heating oil for homes and commerce, petroleum coke for smelting, petrochemical feedstocks -which form the base for the manufacture of plastics, fibres, and healthcare products -, bitumen for roads and roofing, glues, printing inks, paints and solvents.

Consumer demand and product quality changes require on-going investment

The market trend is towards greater demand for diesel and jet fuel and lower demand for petrol. All fuels will become cleaner with the on-going reduction in sulphur content. The cleaner fuels have reduced emissions and enabled a wide range of engine and exhaust clean-up technologies. Expected moves towards still tighter emissions and CO₂ reduction will require further refinery investment.

Why do we need UK refining?

A healthy, viable UK refining sector provides a number of safeguards and benefits.

Security & energy supply

- ▣ UK refineries are central to meeting the UK's consumers' needs, supplying about 32% of primary energy, 90% of transport fuels and a host of other products.
- ▣ An integrated UK refining and supply/distribution infrastructure enhances security of supply and gives flexibility in the event of external disruption or emergencies, including the capability to refine products from a variety of crude sources.
- ▣ the current capacity of the refining sector supports the dynamics of an efficient distribution and storage network

Employment & skills

- ❑ the refining and downstream oil sector supports the employment of over 120,000 people
- ❑ UK refining has a need for and supports a wide range of skills, knowledge and expertise spanning a number of scientific, engineering and technical disciplines; the retention of this expertise and development of this knowledge base in the UK is vital if we wish to play a lead role in refining and other evolving energy technologies
- ❑ In addition to creating employment in its own right, our domestic refining capability also ensures that manufacturing industries dependent on its products for further processing (e.g. healthcare, packaging and plastics, paints and glues, bitumen, gas etc) can thrive and develop around a strong supply base. This local base is essential to retain technical expertise, stimulate innovation within UK manufacturing, and prevent its migration overseas.

Economic contribution

- ❑ UK refineries make a sizeable contribution to the national economy, and form a substantial part of the surrounding economies where they are located
- ❑ refining activity contributes to the balance of payments, with net exports over the last five year averaging £1 billion
- ❑ The value added to crude oil as it is processed into refined products is retained within the UK, rather than being an additional cost if imported

New fuels

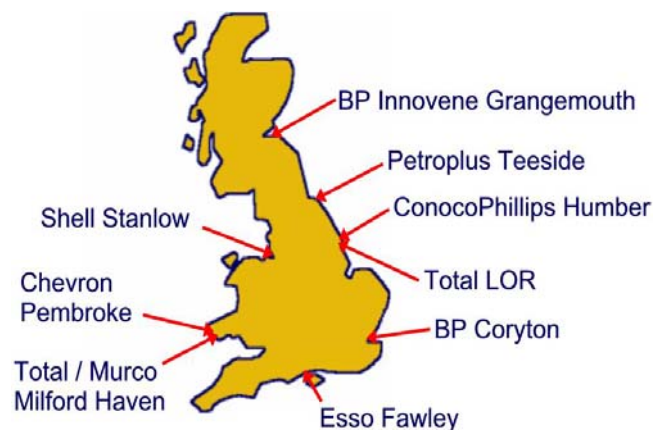
- ❑ UK refineries have a record of responding positively to government policies aimed at early adoption of cleaner fuels in support of new vehicle exhaust clean-up technologies, often in advance of other EU countries. Such flexibility could be lost if the UK were heavily reliant on imports.
- ❑ Indigenous production ensures that consumer needs will be effectively met, both now and in the future, especially as the nation's aspiration to move towards a low carbon economy takes form – a strong UK base will be vital in developing the fuels and infrastructure to provide viable pathways to achieve this.

UK refining should not be taken for granted.

Oil companies operate internationally. Refining is a stand-alone activity that has to generate an acceptable return on capital. Investment in UK refineries is judged against investment opportunities internationally. An alternative to further investment in the UK is to import refined products.

UK refining is a complex, capital intensive and highly competitive business. Aside from the projected financial return of a project, another significant factor is a favourable operating climate where investment and business decisions can be made with confidence in the application of consistent, clear, long-term policy from government.

Many of the refineries in the United Kingdom came on stream in the late 1950s and early 1960s. Since the mid 1960s, refineries have expanded substantially to satisfy growing demand for a range of products, whilst more complex fuels have been developed to help meet much stricter standards for vehicle emissions.



Today, the UK has the fourth largest refining capacity in Europe, despite refineries closing in recent years. Refinery production is allied to an efficient distribution system that includes 1,500 miles of pipelines and 43 storage/distribution terminals. Substantial refinery investment has been made in the past decade to produce cleaner fuels and cut emissions. The continued drive for cleaner air and reduced emissions will require further heavy investment.

Government policy establishes a broad framework for investment and business decisions, it should:

- ❑ be clearly signalled, long-term and stable
- ❑ avoid market interference via subsidies or by “picking winners”
- ❑ Establish regulation that is proportionate, science based and does not distort market conditions