

Cynulliad Cenedlaethol Cymru Pwyllgor Amgylchedd a Chynaliadwyedd	National Assembly for Wales Environment and Sustainability Committee
Egwyddorion cyffredinol Bil yr Amgylchedd (Cymru)	General principals of the Environment (Wales) Bill
Ymateb gan Valero	Response from Valero
EB 05	EB 05





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Mr Alun Ffred Jones AM
Chairman
Environment and Sustainability Committee
c/o Committee Clerk
National Assembly for Wales
Cardiff Bay
Cardiff
CF99 1NA

Our Ref: ST/WJ/1562

11th June 2015

Re: National Assembly for Wales Environment and Sustainability Committee Consultation – General principles of the Environment (Wales) Bill

Dear Mr Chairman,

1. About Valero

1.1. Valero Energy Ltd owns and operates Pembroke Refinery in south west Wales, as well as six terminals across the UK, and the Mainline Pipeline which links Pembroke with the Manchester and Kingsbury terminals. Valero markets fuel in the UK and Ireland under the Texaco brand, with around 850 independently owned and operated Texaco-branded service stations in the UK. In total, Valero employs approximately 800 people in the UK and supports several thousand other jobs at the refinery, terminals and service stations.

1.2. We therefore welcome the opportunity to respond to the Environment and Sustainability Committee's examination into the general principles of the Environment (Wales) Bill. Our selective response to the Committee's consultation, particularly with regard to those parts of the Bill – namely Natural Resources Management and Climate Change – that impact on Valero's operations in Wales, contains what we consider to be an important contribution to the critical debate on future environmental policy in Wales.

2. Natural Resources Management

2.1. *Do you agree with the Welsh Government's proposals on definitions for 'natural resources' and 'sustainable management of natural resource'? Are there things missing that you think should be included?*

2.1.1. The Environment (Wales) Bill's definitions of 'natural resources' and their 'sustainable management' are, in Valero's opinion, baldly prescriptive and lack the appropriate nuance necessary to assuage concerns from many in the Welsh energy sector on the future direction of environmental policy and regulation. Valero has consistently called on the Welsh Government to broaden the definition of natural resources and their use, to include direct and specific reference to the social and economic processes resulting from natural resources, as opposed to a basic definition of their ecological properties.



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2.1.2. Valero again stresses the need for legislative definitions that provide Welsh Ministers and policymakers, both now and in the future, with a flexible suite of options between varying, and oftentimes competing, priorities concerning ecological conservation and socio-economic development.

2.2. *What are your views on the proposals for a National Natural Resource Policy? Is the Bill clear enough about what this will include?*

2.2.1. Valero reiterates its support for a National Natural Resources Policy (NNRP), prepared and published by the Welsh Ministers, believing that setting a national, high-level direction for natural resources strategy will provide the Welsh Government with the best opportunity to fashion a policy that complements and supports other initiatives; as opposed to operating a fragmented and potentially conflicting set of strategies.

2.2.2. Valero would like to stress that any efforts to implement an NNRP must be compatible with the Welsh Government's various business, economic and enterprise policies. In particular, we believe the NNRP should be designed in such a way as to synchronise with the vision of the recent Energy Wales Statement from the Minister for Economy, Science and Transport, which stated that Wales' energy policy should "maximise benefits from renewables, modernised coal and gas generation, profitable refineries, ports and LNG terminals" and that the Welsh Government wanted "to see a diverse generation mix in Wales that produces affordable and secure supply."¹

2.3. *Do you agree with the proposals for area statements? What should these cover and is the process for their development clear enough in the Bill?*

2.3.1. In our response to the Welsh Government's 2013 White Paper on the Environment (Wales) Bill, Valero expressed a desire for greater information on the proposals to utilise an area-based approach to natural resource management. Following the publication of the Bill, as introduced, we believe that many of our calls for clarity on the role of area statements remain relevant.

2.3.2. The Exploratory Memorandum to the Bill recognises that "tackling overarching challenges and identifying sustainable solutions requires an approach that takes into account the local context."² Valero agrees with this sentiment. However, we feel that socio-economic considerations – as well as information on ecosystems – should play an equal role in the providing the local level evidence base for area statements, particularly if area statements are to inform the development of any local development plans.

3. Climate Change

3.1. *Do you agree with the proposals for the 2050 target?*

3.1.1. Valero notes the Environment (Wales) Bill's proposal to ensure that net Welsh emissions are 80% below the respective baseline years of either 1990 or 1995 by 2050, matching the goal set out in the 2008 Climate Change Act. Valero welcomes the decision by the Welsh Government not to set an even higher rate of reduction in Wales than other parts of the UK,

¹ Edwina Hart, Minister for Economy, Science and Transport, 'Written Statement – Energy Wales Statement', [<http://gov.wales/about/cabinet/cabinetstatements/2015/energy?lang=eng>], 20th April 2015 [accessed 5th June 2015]

² Environment (Wales) Bill, 'Exploratory Memorandum: Incorporating the Regulatory Impact Assessment and Explanatory Notes', [<http://www.assembly.wales/laid%20documents/pri-ld10201-em/pri-ld10201-em-e.pdf>], May 2015 [accessed 5th June 2015], p. 30



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which would have a negative impact on the Welsh economy in comparison to Northern Ireland, England and Scotland.

3.1.2. However, whilst Valero is always willing to work with the Welsh Government on these extremely important issues, we would like to acknowledge the many existing layers of climate change legislation that the oil refining sector in the UK already complies with at an international and EU level. Further to this, we would caution all national regulators that in their eagerness to tackle climate change they should avoid imposing additional requirements that would exceed those internationally agreed measures and therefore disadvantage Wales-based industry against other Member State competitors.

3.1.3. Such measures rarely succeed in their intended reduction of greenhouse gas emissions, but simply lead to the transfer of emissions to other localities with less stringent environmental regulation (known as 'carbon leakage'), at the expense of increased financial pressures on domestic industries and employment.

3.2. *For your views as to whether the interim targets should be on the face of the Bill?*

3.2.1. Similarly, Valero feels that any interim targets, specified for one or more years before 2050, should take account of Wales' position compared with national, European and international competitors. Again referencing the recent Cabinet Statement on Welsh energy policy, we welcome efforts to create and maintain "a business friendly and competitive environment for investment and affordable supply"³ in Wales. This is particularly important to industries, such as the downstream oil industry, which operates within a global investment and regulatory environment.

3.2.2. We are concerned that the inclusion of a statutory requirement to specify interim targets in the Environment (Wales) Bill that subsequently goes beyond internationally agreed targets might create a more disadvantageous regulatory atmosphere for operators in Wales compared to other UK and international competitors. The Welsh Government must carefully consider the possible impact on investment and energy developments in Wales that might result from the introduction of statutory interim targets which deprive Wales of the flexibility needed to adjust to changing needs and priorities.

3.3. *Do you believe that the introduction of carbon budgets is a more effective approach than the 3% annual emissions reduction target that is currently in place in Wales?*

3.3.1. Valero welcomes the replacement of the 2010 Climate Change Strategy's annual target to reduce greenhouse gas emissions by 3% in devolved areas with an alternative approach that provides stakeholders with greater flexibility in meeting their climate change obligations. The proposed introduction of carbon budgets, with the ability to carry amounts from one budgetary period to another, does suggest a potentially more malleable approach than the previous 3% annual reduction target.

3.3.2. However, the acceptability of this approach is dependent on the mechanism in place to decide on carrying a part of the carbon budget either forwards or backwards from one budgetary period to another. At present the Bill simply states that Welsh Ministers may decide, following consultation with the advisory body, to carry amounts from one period to another. The

³ Edwina Hart, 'Energy Wales Statement'



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Exploratory Memorandum states this approach allows “flexibility, where a need for a slower transition in one area can be balanced with more rapid progress in another.”⁴

3.3.3. The lack of detail provided on how the Welsh Ministers might come to their decision on transferring budgets from one period to another – especially as the proposals for carbon budgets are a statutory replacement for the previously non-statutory 3% target – creates a degree of uncertainty as to how this might affect stakeholders on a sector by sector basis. Valero recommends that during the ongoing debate on the provisions of the Environment (Wales) Bill more specific detail is included on how Welsh Ministers might come to determine budgetary allocations from one period to another, how Welsh Ministers engage with stakeholders during the decision making process, and what appellate system might be put in place for stakeholders to seek redress on budget allocation decisions that might impinge on their operations.

3.4. *What are your views on what emissions should be included in targets? All Welsh emissions or those within devolved competence?*

3.4.1. Valero believes that consistency should be maintained with previous Welsh Government climate change strategies, and that the Environment (Wales) Bill should target emissions within the devolved competence of the National Assembly for Wales, as opposed to all Welsh emissions. The potential consequences for ‘double counting’ of greenhouse gas emissions between various reporting agencies would have serious consequences for industry in Wales, without the further complication of emissions extending beyond Wales’ devolved competencies.

3.5. *Do you agree with the Bill’s proposals as to what should happen if the Welsh Ministers fail to meet emissions targets or carbon budgets?*

3.5.1. The Bill proposes, in the event of net Welsh emissions exceeding statutory targets or carbon budgets, to require Welsh Ministers’ to report to the National Assembly setting out proposals and policies to compensate for excess emissions in later budgetary periods. Valero hopes that this approach will take account of the potential for exceedances that result from remedial activity taken by industry to meet other regulatory requirements.

3.6. *What should the role of an advisory body on climate change be?*

3.6.1. Valero believes a key role of an advisory body on climate change, not specified in the Bill in its present form, should be to represent the views of all interested stakeholders to the Welsh Government on climate change policies, and should take account of stakeholder opinions when formulating their views and advice to Welsh Ministers. We feel that such a function would greatly enhance the independent nature of the advisory body as a forum acceptable to all stakeholders, and help to create a consensus around the eventual shape of the carbon budgeting system. We recommend, at the very least, a stakeholder technical forum to feed stakeholder views directly to the advisory body.

3.6.2. With this recommendation in mind, Valero would welcome others to reconsider the appropriateness of the UK Committee on Climate Change (CCC) to be the default designated advisory body, as set out in the Bill. A standalone and dedicated advisory body with a balanced membership, better able to take account of the whole range of views on climate change policy –

⁴ ‘Exploratory Memorandum’, p. 41



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including those of industry – would be well placed to secure widespread agreement with all interested parties.

4. Conclusion

4.1. One of the greatest challenges facing the oil refining industry in Wales is the increasing regulatory and legislative burden being imposed on the sector at an international, EU and Member State level. A report by industry consultants Purvin & Gertz, prepared for the UK Petroleum Industry Association (UKPIA), has set out many of the concerns within the refining sector. They concluded that there “is the prospect of significant increases in capital expenditure and operating costs for UK refiners as a result of proposed UK, EU and in some cases Global legislation”⁵, with an increased risk of further plant closures and threats to energy security.

4.2. This sentiment was echoed by Michael Fallon, in his then capacity as UK Energy Minister, who stressed to a recent UK Energy & Climate Change Select Committee report on the oil refining sector, that the “obvious thing Government must not do is to burden them [oil refineries] with unnecessary new regulatory costs that increase the capital budget and will not be affordable.”⁶

4.3. Valero therefore views the proposals outlined in the Environment (Wales) Bill through a prism to ensure that no additional regulatory or legislative requirements be imposed at a devolved level that might place our operations in Wales at a further economic disadvantage in comparison to both our EU and UK competitors. Reassurance from the Welsh Government and all others interested in maintaining a viable oil refining sector in Wales that the statutory proposals contained in the Bill will not have a negative effect on Welsh refining operations would be extremely welcome.

4.4. Once again, Valero is incredibly grateful for the opportunity to air our views in this important debate, and we would be delighted to provide any further details at the committee’s request.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Stephen Thornton', written in a cursive style.

Stephen Thornton
Public Affairs Manager

⁵ Purvin & Gertz, ‘The Role and Future of the UK Refining Sector in the Supply of Petroleum Products and its Value to the UK Economy’, [<http://www.ukpia.com/files/pdf/therolefutureoftheukrefiningsector.pdf>], 10th May 2013 [accessed 8th June 2015], p. 3

⁶ House of Commons Energy and Climate Change Committee, *UK oil refining: Third Report of Session 2013-14: Volume 1*, 26th July 2013, paragraph 25