

Cynulliad Cenedlaethol Cymru	National Assembly for Wales
Pwyllgor yr Economi, Seilwaith a Sgiliau	Economy, Infrastructure and Skills Committee
Blaenoriaethau ar gyfer Pwyllgor yr Economi, Seilwaith a Sgiliau	Priorities for the Economy, Infrastructure and Skills Committee
EIS 02 Valero Energy Ltd	EIS 02 Valero Energy Ltd



Valero Energy Ltd
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Clerk
Economy, Infrastructure and Skills Committee
National Assembly for Wales
Third Floor
Tŷ Hywel
Cardiff Bay
CF99 1NA

Our Ref: ST/WJ/1686

8th August 2016

Re: Priorities for the Economy, Infrastructure and Skills Committee

Dear Sir/Madam,

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 provide the Economy, Infrastructure and Skills (EIS) Committee with our thoughts on what issues the Committee might examine over the course of the current Assembly term.

2. Challenges facing the Welsh Refining Sector

2.1. UK refineries, in common with those in the rest of Europe, are under enormous pressure through a combination of a tough operational climate, structural imbalances in supply and demand and a challenging legislative background in the EU and the UK. Since 2009, three oil refineries have been closed in the UK: Petroplus Teesside (2009), Petroplus Coryton (2012) and Murco Milford Haven (2014).

2.2. Analysis of the UK refining sector by independent analysts Purvin & Gertz indicates that, assuming a level playing field with other refiners across the EU and the world in respect of compliance investment, UK refineries would be considered competitive. There is, however, the prospect of significant increases in capital expenditure and operating costs for UK refiners as a result of proposed UK and international legislation.

2.3. Legislative changes at an EU-level associated with carbon reduction and air quality (i.e. EU ETS Phase III, Fuel Quality Directive, Renewable Energy Directive, Industrial Emissions Directive etc.) will add to these pressures with the risk that EU refineries are competitively disadvantaged versus non-EU refineries that do not have to meet the same standards. Although the impact of the UK's decision to leave the EU on future regulatory environment is unclear, it is assumed that these legislative developments will continue to have a major influence on UK legislation. In addition, UK-only legislation also adds significantly to costs for UK refineries.

2.4. With these prospective legislative changes putting the UK refining sector at a competitive disadvantage in relation to other European refineries, it is imperative for the Welsh refining sector that the National Assembly for Wales and the Welsh Government do not similarly place additional legislative or regulatory demands on the Welsh downstream oil industry.



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3. Recommended Area of Inquiry for the EIS Committee

3.1. In light of these challenges facing the UK oil refining sector, Valero believes that it would be appropriate for the EIS Committee to conduct an inquiry into the future on the Welsh refining sector and the economic role played by this vital industry as a major employer as well as a key component for the UK's energy security.

3.2. As Wales' sole remaining oil refinery, Valero Pembroke is a major element of the Welsh economy. Pembroke Refinery purchases services from close to 800 companies, many of them in Wales, and in 2013 this amounted to £149 million. During major maintenance projects, this spending may be boosted by a further £200 million some of which will be with companies based in Wales.

3.3. The value to the Welsh economy from salaries, business rates and employment at Valero Pembroke is estimated as £55 million per year, with a 2012 study by the Cardiff Business School concluding that every direct job in the Milford Haven Waterway energy sector supports a further 1.7 full time equivalent (FTE) jobs in the Welsh economy (an employment multiplier of 2.7).

3.4. The EIS Committee could feasibly build upon previous evidence compiled at a UK Parliament-level, in particular the Energy and Climate Change Committee's Third Report of Session 2013-14, which examined a range of issues affecting the UK oil refining sector, including legislative burdens on the industry, the balance between domestic production and imported products, security of supply and barriers to investment.

3.5. Looking at the downstream oil sector in a specifically Welsh context, the EIS Committee could draw upon evidence from a range of stakeholders across the downstream oil sector, the industry supply chain, trade unions, regulators and Government, to determine how the policies of devolved institutions interact with the downstream oil sector, and what improvements can be made to ensure the long-term sustainability of the oil refining industry in Wales, with all the attendant benefits it brings to the Welsh economy.

4. Conclusion

4.1. As a significant member of the Haven Waterway Enterprise Zone, Valero supports efforts to boost job creation and business growth in the Welsh economy, with the Haven Waterway being ideally positioned to build upon the region's growing reputation as the 'New Energy Capital' of the UK. Ensuring that oil refining continues to play a leading role in these efforts should therefore be a key priority for all parties interested in the success of the Welsh economy. Valero therefore encourages the EIS Committee to prioritise this important topic in your upcoming work schedule.

4.2. We thank you once again for the opportunity and we look forward to engaging with you further throughout the course of the Fifth Assembly term.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Stephen Thornton', written over a white background.

Stephen Thornton
Refinery Public Affairs Manager