

PRESENTATION TO 1st WORLD BIOFUELS CONFERENCE

By

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‘Biodiesel in the EU – how to maximize the potential’

Mr Chairman, Ladies and Gentlemen,

The title of my presentation is ‘Biodiesel in the EU – how to maximize the potential’. Perhaps I should begin by saying a few words about biodiesel, and why it is worth maximizing its potential.

Biodiesel is a renewable fuel produced from vegetable oils such as those from rape seed and sunflower seed.

In the transport sector, it may be used both when blended with fossil diesel fuel and in pure form. Tests undertaken by motor manufacturers in the European Union on blends with diesel oil between 2% and 30% and 100% pure have resulted in guarantees for each type of use.

Minor modifications (seals, piping) are required for use at 100% pure, unless specifically guaranteed by car manufacturers.

The use of biodiesel as a transport fuel does not require any change in the distribution system, therefore avoiding expensive infrastructure changes.

Biodiesel is also used as an efficient heating oil.

Biodiesel has been produced on an industrial scale in the European Union since 1992, largely in response to positive signals from the EU institutions. It has established a strong customer base during the intervening period. This industry is not a ‘flash in the pan’, and as such, I feel sure that it will continue to develop in the future.

EU biodiesel production in the year 2000 reached around 800,000 tonnes.

In 2001, it is expected that some twenty plants shall produce around 1 million tonnes, mainly in Austria, Belgium, France, Germany, Italy and Sweden.

More than 500 million km are run with biodiesel in the EU. Most of fossil diesel fuel in France is mixed with biodiesel today. No other biofuel has been used to such an extent.

Specific legislation to promote and regulate the use of biodiesel is in force in various countries (including Austria, France, Germany, Italy and Sweden).

Technical specifications have been established in various countries for several years. CEN standardization is well advanced, and should be in force by the end of 2001.

So, having given a brief explanation on what biodiesel is, and how it is used in the EU, I should now like to highlight some of its advantages over fossil fuel – otherwise put, why it is worth maximizing its potential.

Biodiesel has been demonstrated to have significant environmental benefits in terms of decreased global warming impacts, reduced emissions (which alleviates various human health problems), greater energy independence and a positive impact on agriculture.

It is extremely low in sulphur, has high lubricity and fast biodegradability.

Use of biodiesel results in significantly reduced CO₂ (various studies estimating that the use of 1 kg of biodiesel leads to the reduction of some 3 kg of CO₂), particulate and other harmful emissions, advantages which have been confirmed by the Auto Oil II program.

As such, increased use of biodiesel in Europe should represent an important tool for the EU to meet its emission reduction target as agreed under the Kyoto agreement.

Biodiesel production clearly plays an important role in agriculture. Under the current Common Agricultural Policy, the arable raw materials needed for biodiesel production may be grown on set-aside land, land which would otherwise be taken out of production.

Biodiesel production uses around 1 million hectares of arable land in the EU.

Under appropriate economic conditions, biodiesel production could represent a significant absorbing potential for additional acreage resulting from the accession of Central and Eastern European Countries to the European Union.

Other more specific economic advantages of biodiesel production include:

- new avenues and markets for agriculture
- thus, cost saving in agriculture policies
- securing jobs in agriculture, creating jobs at the post-harvest production stages
- additional macro-economic demand induced by multiplier affects, thus creating more jobs
- less consumption of environmental resources compared to fossil diesel and, therefore, lower environmental protection costs
- reduction in mineral oil imports and/or petroleum diesel fuel imports
- less import of oil seed residue (for fodder) and raw glycerin because these are by-products of biodiesel production
- a movement towards independence of exhaustible fossil fuels.

We have, therefore, a description of a success story – a good product which has built up a strong customer base ; a product which responds to problems which range from those linked to the environment to the agricultural economy of today in the EU as well as to those which the EU faces on future enlargement.

On the political front, biofuels in general, and biodiesel in particular, cut across several areas of policy making including agriculture, the environment, energy and fiscal.

As for **agriculture**, the industry has relied to a significant extent on obtaining the right quantity of raw materials at a competitive price by virtue of the non-food set-aside scheme, which resulted from the MacSharry Common Agricultural Policy (CAP) Reforms introduced in 1992. Although the CAP Reform agreed within the framework of Agenda 2000 at the Berlin Summit of March 1999 provided for a reference rate for obligatory set-aside of 10% for the period 2000/2006, the variable

nature of set-aside rates actually applied from year to year does not offer a sustainable base for biodiesel production.

As for the **environment**, I have stated earlier that various studies have confirmed that the substitution of one tonne of fossil diesel by one tonne of biodiesel results in some 3 tonnes of CO₂ savings. Indeed, this is one of the major reasons why our customers opt for buying biodiesel. The European Biodiesel Board which is the major professional organization representing the interests of EU's biodiesel producers, was invited to participate in the work of the European Climate Change Program (ECCP). This program was introduced to help the Services of the European Commission to develop cost effective policy proposals aimed at meeting the greenhouse gas reduction targets agreed to at Kyoto. Although the benefits of biodiesel within this framework have been acknowledged, the work of the program is continuing and definitive proposals have yet to be made.

As for **energy**, the European Commission has acknowledged the importance of biodiesel by including it in its 'Campaign for Take-Off'. It has defined it as a 'Key Sector Action' and targeted a consumption of five million tonnes of liquid biofuels by 2003. You shall recall that I have mentioned that we anticipate EU production of biodiesel to approach one million tonnes this year. Although the Commission's aim is laudable, it is not immediately clear from the White Paper how the Commission sees this target being reached.

I was recently informed that DG TREN of the Commission (which deals with Transport and Energy) was considering as its best option a draft Directive the aim of which would be to oblige the use of a certain quantity of liquid biofuels in the EU. After last year's Green Paper on Security of Energy Supply identified the potential importance of biofuels in the overall aim of replacing 20% of traditional fuels by alternative fuels by 2020, it now seems that this concept is being converted into concrete texts. I understand that DG TREN favours this approach as it would not require unanimous voting (an inherent problem of detaxation), and would allow Member States to arrive at the required destination using their own routes.

However, it is not sufficient to make a proposal purely because its adoption would be easier than the adoption of more effective proposals. Although it is positive in itself that the Commission appears to be trying to do something concrete for the industry, this may not be the way to do it! The proposal to oblige fuel suppliers to incorporate a certain share of

biofuels into all transport fuel as envisaged by DG TREN should be considered very carefully by all concerned. We do not want to be perceived as an industry which operates in a ‘false’ market, where our customers are *obliged* to buy our product. We produce a product which people want, and we *can* operate in a free market under the right conditions. The right conditions imply the right level of taxation.

As for **fiscal** measures, biodiesel production in the EU has relied so far on tax incentives at the end product level. The industry needs a clearly defined detaxation system for liquid biofuels throughout the EU – we have no objection in principle to a system which implies quantities or pilot projects as long as the definition of such quantities or pilot projects are reasonable.

The confusion resulting from the European Court of First Instance’s judgement on the BP Chemicals case in September 2000 has made the question of detaxation all the more pressing for the industry. France and Italy in particular are encountering difficulties in gaining approval for their national legislation.

More precisely, prior to the judgement, detaxation in France and Italy was based on Article 8, 2 (d) of Council Directive 92/81 EEC of 19 October 1992 on the harmonization of the structures of excise duties on mineral oils. The Article allows for exemptions or reductions of duty in the field of pilot projects for fuels from renewable resources. This procedure allows Member States to exempt biodiesel from duty autonomously with the agreement of the Commission.

As a consequence of the judgement, both France and Italy have applied for duty exemption using the derogation procedure set out in Article 8, 4 of the Directive. A derogation implies unanimity from the Council.

DG Competition of the European Commission decided in December 2000 to reopen the State Aid procedure for liquid biofuels in France and Sweden as a reaction to the Court’s judgement. Meanwhile, the Commission has appealed against the Court’s decision.

Given that the detaxation system for a significant proportion of French biodiesel production expired on 31 December 2000, coupled with the complexity of the ensuing administrative procedures which clearly need time to be resolved, the French Administration has asked for permission to continue with the existing quota system whilst the derogation procedure is under consideration, and also for state aids.

It is hoped that Italy shall not be faced with problems of this nature as regards its request for derogation. Italy's pilot project phase is to expire at the end of June 2001.

This is an extremely complicated matter, and one which must be resolved in the immediate future to ensure the health of our industry.

Yes, unanimity at Council is required for decisions on tax matters. This, as was observed by DG TREN recently, has proved to be an obstacle for us. The Commission has tried to progress this matter its draft Directives of 1992 and 1997 – but it not the Commission which votes – it is the Member States.

I am encouraged to note that the Chancellor in the UK announced a 20p reduction in duty specifically for biodiesel in his pre-election Budget recently. This amount may not be enough in itself – but it is an extremely significant political gesture in the right direction.

I have also learned that the Swedish Presidency of the EU is reported to be 'very optimistic' that the Commission's proposal of 1997, which has been 'on the table' for some three years, can be agreed. I understand that the question of how high minimum tax rates should be set has yet to be discussed however. It seems that as the importance of cutting fossil fuel emissions to meet EU climate commitments has grown, calls to reach a deal on tax have multiplied. Spain, which had previously been opposed to the proposal, now appears to be softening its line on energy tax.

Although it appears unlikely that a formal agreement shall be reached under the Swedish Presidency, Belgium, which takes over the EU Presidency in July, is reported to be working closely with Sweden on this matter, and is expected to continue the push for an early agreement.

It seems to me that, at last, we are seeing some progress on some of the major political issues which impact the biodiesel industry. This progress is born out of the perceived need held by the National Authorities of the EU and the European Commission alike to remedy significant problems ranging from energy security to the environment – problems that can be diminished with the help of a strong biodiesel industry in the EU.

But the industry must also help itself – although these political aspects are essential to the well being of the industry, we can not just sit back and wait for an appropriate legislative framework. It is clear that we must

continue to bring our problems to the attention of the Authorities - indeed, we have been doing this for many years through the European Biodiesel Board and other like-minded NGOs, and it is in no small measure due to their efforts that we can look forward to a more positive environment in the future if all goes to plan.

But the industry must also be more self-disciplined. It would be extremely unwise for producers to jump into an intrinsically sensitive market which is temporarily profitable. With this in mind, the industry itself must continue to concentrate on producing a product of the highest quality at the right level of production. We must pay particular attention to the quality of Used Frying Oil (UFO). We must similarly discourage the production of an inferior product by small, undisciplined producers. A bad product gives a bad image - and our industry has enough problems to deal with as it is without inheriting the problem of being linked to a poor quality product. After all, in the transport sector people buy biodiesel because it is good for the environment, and performs appropriately in the engine. We are absolutely obliged to make sure that our customer base is not endangered.

We must keep a watchful eye on our level of production. Too much too soon could have a serious effect on the oil market. We need to remind ourselves that we can only survive in a balanced market – the short sighted reaction of coming onto the market when there is money to be made could lead to supply outstripping demand – and that is not an environment within which it is easy to survive.

To conclude, I hope that I have given you an idea of the current situation of the biodiesel industry in the EU, why biodiesel's potential should be maximised and how this can be achieved. If I were to have to focus on a single word which would describe how the potential of industry could be maximised, that word would be '**detaxation**'.....