



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - public distribution

Date: 9/27/2005

GAIN Report Number: E35187

EU-25

Agricultural Situation

Pakistan, EU's second largest ethanol exporter, loses privileged status.

2005

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Report Highlights:

Pakistan, the second largest ethanol exporter to the EU, has lost its privileged status. Although Pakistan still benefits from a 15 percent reduction in the import duty, Pakistani ethanol does not appear to be competitive in the European market.

There has also been a complaint about Pakistani ethanol being dumped on the European market. This complaint was launched by the Committee of Industrial Ethanol Producers (CIEP) and is now being investigated by the European Commission.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Brussels USEU [BE2]
[E3]

Exports of ethanol from Pakistan to the European Union are reportedly at a standstill after the country lost its preferential status on July 1, 2005. The duties that importers must pay now range between €86.7 and €63.2 depending on the quality of the ethanol.

In May 2005, total EU-25 imports of ethanol reached 40.0 million liters against 28.7 million liters in May 2004. This brings cumulative imports of the first five months of 2005 to 192.7 million liters, a 68 percent increase compared to the 114.5 million liters for the same period in 2004. The largest ethanol exporter to the EU is Brazil with 55 million liters (32 million in 2004). Pakistan is the second largest exporter, accounting for almost 50 million liters. Other large ethanol suppliers include Guatemala, Ukraine and Peru.

Pakistan was taken out of the EU Generalized System of Preferences (GSP) anti-drug regime because the Special Arrangements for Combating Drug Production and Trafficking no longer exist in the EU GSP system. After a complaint lodged by India, a WTO panel found that the European Communities violated GATT/WTO obligations in granting tariff preferences to 12 countries under this special arrangement, without properly extending the preferences to other developing countries. In the modified GSP regime, the anti-drug system is replaced by GSP Plus. However, Pakistan does not qualify for GSP preferences under this new system.

To benefit from GSP Plus, countries need to demonstrate that their economies are poorly diversified, and therefore dependent and vulnerable. GSP-covered imports from that country must also represent less than one percent of total EU imports under GSP. Pakistani ethanol exports are just over one percent.

A provisional form of the GSP Plus regime was implemented in July 1, 2005, with the expectation that the rest of the [new GSP system](#)¹ will enter into force on January 1, 2006. Until that time, the existing General Regime will remain in place. Under the general system, Pakistan can continue to benefit from a 15 percent reduction in the import duty on ethanol. However, as of January 1, 2006, ethanol will be withdrawn from the scope of the General Regime, which means that as of that date Pakistan will completely lose all preference on ethanol. According to the European Union of Ethanol Producers (UEPA), Pakistani ethanol cannot effectively compete in the European market with only 15 percent reduction of the import duty.

In May 2005, the European Commission received a complaint from the Committee of Industrial Ethanol Producers of the EU (CIEP), alleging that Pakistan and Guatemala were dumping exports of ethyl alcohol, and were thereby causing material injury to the EU industry.

The EU Commission is currently conducting a dumping investigation on ethyl alcohol originating from Pakistan and Guatemala. Specifically, the product in question is ethyl alcohol, whether denatured or undenatured, having an alcohol strength by volume of 80 percent or higher. According to EU regulations, the investigation should be concluded within 15 months.

Pakistan currently reports that this loss of trade has led to the closing of two of the seven operating distilleries, and that another five new distilleries will probably abandon plans to begin operations due to uncertainties of the market situation.

¹ http://europa.eu.int/comm/trade/issues/global/gsp/memo230605_en.htm

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