



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - public distribution

Date: 3/10/2006

GAIN Report Number: E36043

EU-25

Agricultural Situation

European Commission Publishes Biofuel Strategy

2006

Approved by:

Norval E. Francis, Jr.
U.S. Mission to the EU

Prepared by:

Karin Bendz

Report Highlights:

The European Commission is promoting the use of biofuels as an alternative energy source for transportation. On February 8, 2006 the Commission published an ambitious Biofuels Strategy.

The Agriculture Council held a first policy debate on the biofuels strategy and the EU's biomass action plan. Ministers were divided on issues such as the level of imports from non-EU countries versus domestic production and the CAP-related energy crops system, which the NMS cannot use at present.

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

The European Commission in February 2006 adopted an EU Strategy for Biofuels. The Strategy is ambitious and underlines the EU's commitment to developing the biofuels market and proposes a range of potential market-based, legislative and research measures to boost production of fuels from agricultural raw materials.

In the EU, transport is responsible for almost one quarter of the greenhouse gas emissions. This, together with the heavy dependence on import for energy used for transport makes it essential to find a replacement for fossil fuels. The EU Biofuels Directive sets reference values of 2 percent market share for biofuels in 2005 and 5.75% in 2010. However, the market share reached only 1.4 percent at the end of 2005. This slower than expected increase is triggering discussions about making the levels for use of biofuels in the Union mandatory instead of indicative, as they are currently.

The Commission sees multiple benefits in the increased use of biofuel. It will reduce Europe's dependence on fossil fuel imports, something that is of increasing importance after the recent scare when Russia turned off the gas pipe of gas from Russia coming through the Ukraine. Around 20 percent of the natural gas needs of Europe come from Russia. Other positive effects would be to reduce greenhouse gas emissions, to provide new outlets for farmers, and opening up new economic possibilities in several developing countries.

The strategy, which builds on the EU biomass action plan that was adopted in December 2005, sets out three main aims:

- To promote biofuels in both the EU and in developing countries
- To prepare for large scale use of biofuels by improving their cost competitiveness and increasing research into the "second generation" of biofuels.
- To support developing countries where biofuels production could stimulate economic growth.

The new EU Strategy outlines out seven key policy areas that pull together measures the Commission will take to promote the production and the use of biofuels.

1. Stimulating demand for biofuels.

The Commission will publish a report in 2006 on a possible revision of the biofuels directive. Member States must be encouraged to favor biofuels, including second-generation products, and consideration will be given to biofuel obligations. The Commission has also brought forward a proposal to promote clean and efficient vehicles.

Ways of stimulating demand for biofuels that have been discussed are for example to make the biofuels goals mandatory.

2. Capturing environmental benefits.

The Commission will examine how biofuels can best contribute to emission targets. The Commission shall work to ensure sustainability of biofuel feedstock cultivation and look again at limits on biofuel content in petrol and diesel. The Directive 98/70/EC on motor fuel quality officially authorizes, for regular sale at the pump, gasoline's that contain no more than 5 percent ethanol or 15 percent ETBE. The industry and some MS governments have asked that this limit should be changed to 10 percent, claiming this is necessary to reach the Commission goals.

4. Extending supplies of feedstock.

The Commission is making sugar production for bioethanol eligible for CAP support schemes. It will assess possibilities to process cereal intervention stocks, finance an information campaign for farmers and forest owners, bring forward a forestry action plan, and look into the possibilities for using animal by-products and clean waste. Also, forest groups in the EU

say that forest products should be a feedstock for the production on biofuels. The European forestry groups suggest that bio-energy should be made a priority in the Forest Action plan, which is to be launched in mid-2006.

There are also discussions about growing sugar beets for the production of bioethanol. Sugar beets for this use could be eligible for the Carbon Credits (Currently €45/ha, but this payment might increase, this will be decided later this year). This sugar beet production would not be counted within the quotas set by the new sugar regime. The Carbon Credit is not available for farmers in the NMS. However, some of the new EU member states insist on being included in the current energy crop system that allows the EU to pay farmers for energy crops production.

Concerning the use of feedstock for biodiesel and amendment of the standard EN14214 could facilitate the use of a wider range of vegetable oils, such as soybean oil. The European Commission will review the standard later in 2006.

In 2006 for the first time, a tender for rye from intervention stocks will be opened specifically for bioethanol production.

5. Enhancing trade opportunities.

The Commission will assess the possibility of putting forward a proposal for separate customs codes for biofuels, it will pursue a balanced approach in trade talks with ethanol-producing countries and propose amendments to the biodiesel standard. However the issue of biofuel imports from non-EU countries was one of the main concerns raised during a debate on the Commission's biomass action plan and its strategy to promote biofuels. The EU's agriculture ministers held a policy debate on the Commission's biomass action plan and its European strategy for biofuels on 20 February 2006. They welcomed both initiatives but also expressed concerns about their agricultural production. Some governments want to restrict the imports of biofuels (esp. ethanol) from countries such as Brazil and encourage domestic production of biofuels (esp. biodiesel, where the EU is already world leader).

6. Supporting developing countries.

In the Biofuels Strategy the Commission says it will ensure that measures for ACP Sugar Protocol countries affected by the EU sugar reform can be used to support the development of bioethanol production, develop a coherent Biofuels Assistance Package for developing countries and examine how best to assist national and regional biofuel platforms.

The European Commission assumes that in a number of developing countries, production of biofuels could stimulate economic and environmental benefits, create employment and reduce energy import bills and open up potential export markets. For example bioethanol could be a feasible alternative for sugar producing countries affected by the EU sugar reform.

7. Research and development.

The Commission says it will continue to support the development of an industry-led Biofuel Technology Platform, which will make recommendations for research in this sector. Biofuels will have a high priority in the 7th Framework Program, in particular the 'bio-refinery' concept - finding valuable uses for all parts of the plant, and second-generation biofuels. The Commission believes that research should make it possible to cut production costs considerably beyond 2010. Through the Energy Europe Program, the Commission will support market introduction and the dissemination of proven technologies. There is a lot of emphasis on the development of second generation of biofuels, and this in particular is currently one of the main recurring themes in international conferences on the subject of the hot subjects on conferences. Spain is to open the world's first commercial cellulosic ethanol

production plant in the autumn of 2006. The production capacity for this plant is 54 million gallons (2,044,122 hectoliters) and the feedstock is to be straw.

The Commission says the EU must also continue to support research into second-generation biofuels, such as ligno-cellulosic ethanol, Fischer-Tropsch biodiesel and bio-dimethyl ether (bio-DME).

Visit our website: our website <http://useu.usmission.gov/agri/> provides a broad range of useful information on EU import rules and food laws and allows easy access to USEU reports, trade information and other practical information.

E-mail: AgUSEU.Brussels@usda.gov

Related reports from USEU Brussels:

Report Number	Title	Date Released
E36035	EU Rapeseed Crop Reaches Record Levels as Biofuels Market Boost Demand	03/01/06
E35235	Commission Biofuels Action Plan could open new opportunities for US soyoil	15/12/05
E35204	Imports of GM rapeseed and rapeseed oil for Biodiesel	10/25/05
E35187	Pakistan, EU's second largest ethanol exporter loses privileged status	09/27/05
E35172	Outlook for EU oilseeds and biofuels	09/09/05
E35118	Oilseeds Annual	06/20/05
E35101	Conditions for importing biodiesel to the EU from the U.S.	05/24/05
E35085	Strong Growth anticipated for EU Biodiesel Production	05/03/05
E35058	Biofuels situation in the European Union	03/23/05

These reports can be accessed through our website www.useu.be/agri or through the FAS website <http://www.fas.usda.gov/scriptsw/attacherep/default.asp>.