

Opinion of the Economic and Social Committee on:

- the 'Proposal for a Directive of the European Parliament and of the Council on the promotion of the use of biofuels for transport', and
- the 'Proposal for a Council Directive amending Directive 92/81/EEC with regard to the possibility of applying a reduced rate of excise duty on certain mineral oils containing biofuels and on biofuels'

(COM(2001) 547 final — 2001/265 (COD) — 2001/266 (CNS))

(2002/C 149/03)

On 18 January 2002, the Council decided to consult the Economic and Social Committee, under Article 80(2) of the Treaty establishing the European Community, on the above-mentioned proposals.

The Section for Transport, Energy, Infrastructure and the Information Society which was responsible for preparing the Committee's work on the subject, adopted its opinion on 5 April 2002. The rapporteur was Mr Wilkinson.

At its 390th plenary session, on 24 and 25 April 2002 (meeting of 25 April), the Economic and Social Committee adopted unanimously the following opinion.

1. Introduction

1.1. The Commission has produced a communication and two draft directives concerning alternative fuels. All are contained in ⁽¹⁾. The two directives are a proposal to promote the use of biofuels and another to allow Member States (MS) to apply a reduced rate of excise duty on biofuels.

1.2. The reasons given for the proposal to promote alternative fuels are environmental and to improve the security of EU energy supplies. The reason for the proposal to allow (but not force) MS to apply a reduced rate of excise duty is to make biofuels competitive, since it costs about EUR 300 more per 1 000 litres of diesel for the biofuel to replace it ⁽²⁾. According to the Commission, to compete on level terms with petroleum-based fuels, the oil price would have to be about EUR 70 per barrel ⁽³⁾.

1.3. It is proposed to oblige MS to ensure that biofuels provide a certain percentage (initially 2 % of the total, but increasing with time) of transport fuels sold on their territory by 2005. Dependent on an examination by the Commission

before the end of 2006, a second phase would oblige them to ensure that all transport fuels sold contain biofuels. The aim is to achieve 20 % substitution of conventional fuels by 2020, of which 8 % would be biofuels ⁽⁴⁾.

1.4. The Commission believes that blends of up to 15 % for petrol and 5 % for diesel could be accommodated by some cars without them needing significant changes. Vehicles that can use 'pure' biofuel are likely to remain largely limited to captive fleets, such as public transport and taxis, for some years ⁽⁵⁾.

2. General comments

2.1. The Committee welcomes the basis for this proposal, namely the replacement of some fossil fuels by alternative fuels from renewable sources. It notes the considerable variety of alternative fuels already under development or in use. It welcomes the possibilities for diversification in agriculture and for increased employment that are explained in the proposal, as well as the projected environmental benefits, notably in combating climate change, and the increased security of supply.

⁽¹⁾ COM(2001) 547 final.

⁽²⁾ This figure allows for the fact that it requires some 1 100 litres of bio-diesel to replace 1 000 litres of normal diesel; for petrol 1 000 litres of bioethanol will replace 1 000 litres of petrol in the blending conditions authorized in the EU (maximum of 2,7 % oxygen).

⁽³⁾ This reflects the current position, but economies of scale should reduce this over time to about EUR 55 per barrel.

⁽⁴⁾ The remaining 12 % is projected to come from natural gas and hydrogen.

⁽⁵⁾ It is encouraging to note that growing numbers of 'Flexible Fuel Vehicles' (FFVs), using a blend of 85 % bio-ethanol, are being sold in the US and in Sweden, the pilot EU market for Ford. This could indicate that FFVs will become common with individual consumers quicker than expected. To be competitive either the bio-ethanol component must be tax-free or production costs must be subsidized.

2.2. The Committee notes that different studies offer wide variations in the figures involved, although it recognises the efforts that the Commission has made to put forward figures that they can support. The Committee suggests that further work is required to refine the figures given, to give better information on the probable costs involved and to clarify some of the environmental, technical and economic aspects. A particular concern is the balance of environmental advantage (using the same methodology in each case) that would result from the proposals.

2.3. The proposal covers a complex area, involving elements of many EU policies (environment, agriculture, fiscal, etc.), and also an area where technical developments are numerous. It will be important to keep a close watch on developments to ensure that the given aims are met in the best and most cost-effective way. This last point is of particular importance because of the costs involved at a time when so much investment is already planned over the next decade for the production of sulphur-free fuels ⁽¹⁾.

3. Specific comments

3.1. Flexibility

3.1.1. As stated above, many types of alternative fuel are developed or being developed ⁽²⁾. It is not possible to forecast with any accuracy how fast developments will be in most of these areas or what the environmental and economic benefits may be. We therefore welcome the Commissions undertaking to monitor all developments closely.

3.1.2. In addition, the current alternative fuel situation is different from Member State (MS) to MS; their transport fleets are also very different. Different solutions will favour different MS. It is therefore important that maximum flexibility be given to MS in meeting the overall aim. This could include making allowance for all types of renewable fuels in meeting an agreed target for each MS, always provided that such flexibility did not lead to some MS not meeting their targets and provided that it does not lead to distortions to the internal market.

3.1.3. Within the overall context of the EU's energy policies, diversity would have the advantage of allowing the possibility of development and investment in renewable fuels being spread between several different solutions and market forces would be able to play a more important role.

3.1.4. While the Commission foresees trading in biofuels between MS as the way forward, the Committee wonders if, as one possible way of maximising flexibility, it might be possible to consider setting targets for each MS (as proposed), but then following an 'emissions-trading model' to allow MS flexibility in how they met their targets. The overall EU effect would be the same (on emissions, security and employment) and it would still be required of each MS that it met its individual target; but MS would have greater flexibility in how to meet this target.

3.1.5. The proposal, subject to review in 2006, for a mandatory blend of biofuel in each type of fuel marketed would reduce flexibility and requires further analysis.

3.2. Environmental

3.2.1. The major benefit, strongly supported by the Committee, would be the replacement of some fossil fuels by renewables. The directive should make clear that 'renewable' fuels are the key to better environmental results and to security of supply, rather than 'alternative' fuels. There will be some welcome reductions in waste in niche areas (for example, by using waste vegetable oils and fats — up to 3 million tonnes in the EU per year — as secondary biomass).

3.2.2. For biofuels, the effect on CO₂ and other emissions will initially be small because of the limited amounts used.

3.2.3. There are conflicting views about the balance of environmental benefit from biofuels, although the Commission has found a majority of studies to be positive. Since the first aim of the proposal is the benefit to the environment, it is vital to have the best possible information on this aspect and it needs further study.

⁽¹⁾ It should however be noted that the addition of oleaginous methyl ester can usefully compensate for the reduction of the sulphur level in fuels.

⁽²⁾ Biofuels (from a growing number of raw materials), natural gas (including diesel from natural gas and the derivatives methanol and dimethylether), hydrogen and fuel cells, electricity, liquefied petroleum gas.

3.3. *Agricultural*⁽¹⁾

3.3.1. The proposal provides the possibility for most welcome agricultural diversity, and with it the stimulation of rural economies. However, the proposal makes no mention of the strong possibility of a significant part of the biofuel requirement being met from trade with third countries. While some developing countries may benefit from this, it is probable that the greatest opportunities will be for the United States and Brazil; both have considerable capacity in this area and their scale of production is likely to make their prices attractive. Such trade could have a marked effect on the extra employment foreseen. On the other hand, export of EU biofuels could also become an attractive possibility over time. The Committee wishes to emphasize that the development of agriculture to produce more biomass must not be allowed to endanger the precautions taken in the EU with regard to Genetically Modified organisms.

3.3.2. One other area that is promising in the medium term is the use of forest residues (and other cellulose containing raw materials) to produce biofuels. As with other areas of development, the speed of progress will largely depend on the resources devoted.

3.3.3. Developments in the area of biofuels will, in fact, be one part of a much bigger picture, including the future development of the Common Agricultural Policy (CAP) and the EU's energy policies. This will include balancing the use of agricultural land for food production and for other uses. Apart from biofuels, the Committee suggests that the production of energy from the burning of certain biomass would be a further way of reducing the consumption of fossil fuels at an economic cost, while providing benefits to agriculture, the environment and security of supply.

3.4. *Employment*

3.4.1. While the estimates on the employment effect are widely varied, producing biofuels is relatively labour intensive. The Commission estimates that each 1 % of total EU fuel consumption replaced by biofuel should create between 45 000 and 75 000 new jobs, mostly in rural areas (but note the comment in point 3.3.1 above). The Commission note that growing crops for biofuels should facilitate the absorption of the agriculture sector from Candidate Countries as they

become EU MS. There would also be many new (but largely temporary) jobs involved in creating the necessary new infrastructure.

3.5. *Security of supplies*

3.5.1. As EU transport fleets grow, the security of fuel supplies will become more important. The policies proposed would probably have at best a modest restraining effect on oil prices⁽²⁾, although they would certainly help EU self-sufficiency. It is noted that the EU has an existing surplus of gasoline⁽³⁾, which gives reasonable security of supply. The value of bio-diesel in securing supplies would be most welcome and deserves every support.

3.6. *Fiscal*

3.6.1. Market forces will inevitably be important in encouraging the change to biofuels. It is clear that unless there is the possibility of price competitiveness for biofuels, including blends, in the pump prices paid by consumers, there will be no incentive to spend the considerable sums that will be needed to move to more biofuel use. Tax is the only realistic way to achieve this. However, the Committee doubts whether the proposed maximum 50 % reduction in taxes will be enough to achieve this, at least in most MS⁽⁴⁾. Nor is the need for this restriction evident; Finance Ministers will still have full control over the rates that they choose to set. The removal of the current agreement to allow 'tax-free' pure biofuels will also be a disincentive.

3.6.2. The Committee considers that the proposal should simply authorise MS to apply any rate of excise down to zero on the biofuel element in fuels sold on their territory. It will be important that any such incentives are not allowed to distort the market for ethyl alcohol, which has many industrial uses.

⁽¹⁾ See the recent ESC Opinion on New impetus for a plan on plant-protein crops, (CES 26/2002).

⁽²⁾ A 2 % lower demand for oil would lower EU consumption by about 4 billion barrels each year.

⁽³⁾ Although we note that only some 44 % of crude oil requirements are met from European production.

⁽⁴⁾ The proposal would allow the biofuel component of fuel to be completely tax-free up to the point that it makes up 50 % of the product. For fuels whose biofuel component is greater than 50 % no further concessions would be allowed.

3.6.3. For real progress in this new industrial sector it will be crucial for them to have stable conditions in which to operate. The Committee questions whether the six-year 'planning horizon' foreseen is adequate to provide this and consideration should be given to increasing it.

3.7. Promotion

3.7.1. Fiscal incentives (see above) are the only specific promotion measures proposed. The Committee suggests that the Commission and Member States should undertake an information campaign to explain the benefits of biofuels, and other renewable energy sources, to the public.

3.8. Costs

3.8.1. The proposals do not offer firm information on the likely costs involved. If they are very significant, this alone could make the timescale proposed very optimistic. The Commission should include a proper forecast of costs in their proposals.

4. Conclusions

4.1. The Committee strongly supports the aims of the proposals. In particular it welcomes the expected benefits to the environment from the greater use of renewable fuels and the possibilities for further agricultural diversity and for reducing the extent of set aside under CAP.

4.2. It is concerned to make the means of achieving the objectives from using biofuels as flexible as possible to allow for the different circumstances in individual Member States. This would include making due allowance for the various types of renewable fuels.

4.3. The Committee stresses the need to give the new industries necessary to meet the objectives of the EU in this area a stable environment in which to develop and an economic situation that will encourage consumers to use biofuels.

4.4. Given the key role that fiscal incentives will play in the acceptance of biofuels (and other renewable fuels), the Committee believes that the reduction in excise duties for such fuel should not be constrained in the Directive, and should be entirely at the discretion of Member States.

4.5. The Committee regrets that so little information on the likely costs involved in the proposals is given and urges the Commission to provide adequate information to allow both proper planning and clarification of the cost effectiveness of the proposals.

4.6. In view of the doubts expressed by some on the balance of environmental advantage from the proposals, the Commission is urged to ensure that all available studies, past and future, are reviewed to clarify the facts in this respect.

Brussels, 25 April 2002.

The President
of the Economic and Social Committee
Göke FRERICHS
