



DG Competition
Unit B3 Markets and cases I: Energy and Environment

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Response to the DG Competition consultation on the Prolongation of the State aid Regulations and Guidelines reformed under the State aid modernisation (SAM) package and expiring by the end of 2020

SEKAB appreciates the opportunity to comment on the announced intention of the Commission to extend the validity of the State aid rules reformed under the State aid modernisation ('SAM') package until December 2022. Our response focuses on the Guidelines on State aid for environmental protection and energy (**'the Energy and Environment Guidelines'**).

SEKAB is a leading Swedish producer of ethanol-based biofuels and bio-based chemicals. SEKAB produces ED95, a high-blend bioethanol consisting of 95% pure ethanol, used to achieve significant reductions in CO₂ and particulate emissions in truck transport. SEKAB also runs a Biorefinery demo plant that produces advanced cellulosic ethanol from forest-based materials such as saw dust, forest residues, and straw.

Paragraph 113 of the Energy and Environment Guidelines currently states that no operational support can be given to crop-based biofuels beyond 2020. The draft Communication that sets out the extension of the validity of the Guidelines does not foresee any extension of this 2020 deadline to correspond with the extension of the Guidelines to 2022.

SEKAB is seriously concerned about the disruptive impact that a 2-year gap in support between 2020 and the expected adoption of revised Energy and Environment Guidelines in 2022 would have on the market for pure bioethanol transport fuels, such as ED95.

If the extension of the Guidelines goes ahead without any changes regarding the 2020 deadline for operational support to crop-based biofuels, this will amount to a full prohibition of Member State support to any biofuels that include crop-based feedstocks. While we believe it makes sense for support to be stopped in 2020 for biofuels with high risks of indirect land-use change or biofuels that do not achieve significant GHG emission reductions compared to fossil fuels, we believe that **a full prohibition of support to any biofuels that include crop-based feedstocks would contradict the revised Renewable Energy Directive and would seriously hinder the achievement of EU and Member state level decarbonisation targets. It would also be inconsistent with the revised Clean Vehicle Directive which promotes the uptake of vehicles running on pure biofuels such as ED95 through their inclusion in the definition of 'clean vehicle'.**

In 2017, ethanol made up 65% of the biofuels produced globally¹. Pure bioethanol fuels have an important part to play in helping the EU achieve low-carbon mobility, which is necessary if the EU is to achieve its commitments under the Paris Agreement; let alone the more ambitious net zero emission trajectory set out in the Commission's 2050 strategy. It has been widely acknowledged that electrification of transport will not be enough to achieve these ambitions on its own and sustainable biofuels will be needed to decarbonise transport modes where electrification is not a viable option such as heavy-duty, air and maritime transport.²

Continued support for sustainable pure biofuels, such as ED95, is therefore needed to achieve the decarbonisation of heavy-duty transport. Without support these biofuels cannot compete with fossil fuels, given the taxation approach under the EU Energy Taxation Directive (ETD) which has led to a situation where renewable fuels like ethanol are more heavily taxed than fossil fuels, contrary to the EU's climate and energy goals. As long as the Directive is not reformed to put in place taxation based on energy content instead of volume and to allow member states to differentiate between the minimum tax levels for renewable, low-carbon fuels and fossil fuels, pure bioethanol cannot compete with fossil fuels and depends on government support.

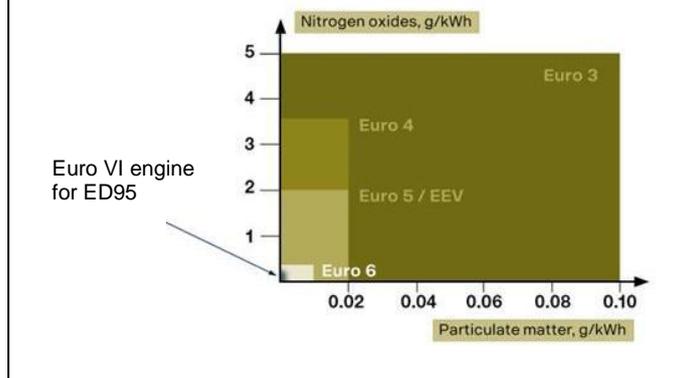
The Energy and Environment Guidelines should therefore allow continued support for ED95 and other best performing high-blend biofuels where they meet the following criteria:

- Include a minimum of 95% biomass content and are not blended with fossil fuels;
- Achieve significantly lower CO₂ emissions than fossil diesel (ED95 can reduce emissions up to 90% compared to fossil diesel);
- Help improve air quality by achieving significantly lower emissions of nitrogen oxides as well as particulates than equivalent diesel usage (see Figure 1 below on ED95 emission savings);
- Are used in sectors where there are no readily available alternatives to achieve CO₂ reductions (such as heavy-duty transport);
- Are European products, produced by European industry and consisting mostly of European feedstocks;
- Do not use palm oil or other feedstocks based on oil crops.

¹ REN21 *Renewables 2018 Global Status Report*

² *Technology Roadmap: Delivering Sustainable Bioenergy*, IEA, 2017; *Global Energy Transformation: A Roadmap to 2050*, IRENA, 2018

Figure 1: PM and NOx emission savings of ED95 engines compared to European standards for diesel engines



Continued support could also be tied to the use of vehicles with engines adapted for bioethanol – given that such engines can only run on bioethanol, this would avoid any potential abuse whereby heavy-duty vehicles benefiting from support measures may still be run on fossil alternatives³.

If no support to crop-based pure bioethanol is allowed from 2020, this will have the following detrimental consequences:

- **European production of these sustainable biofuels will stop.** European producers will not be able to compete with fossil fuels given the disadvantage under the current EU tax regime under the Energy Taxation Directive. Producers such as SEKAB would be forced to stop the production of high-blend bioethanol like ED95.
- **The production of trucks that can run on bioethanol would be likely to cease,** as it would become too expensive to run these vehicles. If this happened, trucks would not be available to meet future demand. A similar problem occurred in 2008 when the production of ED95 busses was discontinued, despite their widespread use in a number of cities in Sweden (including Stockholm), due to uncertainties about the regulatory environment for biofuels.
- **Consumer choice for low carbon transport options would be reduced,** adversely impacting the ability of industrial consumers to decarbonise their operations. Currently ED95 heavy trucks and busses are used in Sweden, France, Norway and Finland. There is increasing demand from large international corporates in Sweden for low CO₂ transport options and these companies rely on ED95 to help achieve their CO₂ reduction pledges. If high-blend bioethanol is no longer produced, these companies have no viable alternatives to achieve low CO₂ truck transports.
- **Fuel retailers' options to fulfil diesel blending mandates would be restricted to less sustainable alternatives.** ED95 currently provides an alternative to HVO as the main fuel

³ Such a system is currently in place to support the use of ED95 in France.

used by fuel retailers to fulfil diesel blending mandates. This brings welcome competition in particular in markets where there are very few HVO suppliers.

- **Investment in pure bioethanol fuels and advanced biofuels and related technologies would be discouraged.** Whereas continued support would provide security to investors in terms of the future market for biofuels-based transport solutions, including advanced biofuels, a support gap would send the opposite signal. The manufacturing of adapted bioethanol engines has required significant investments in research and development. If the production of these fuels is stopped because of regulatory obstacles, this will discourage manufacturers from further future investments in biofuel engines. Similarly, consumers are less likely to re-invest in using biofuels of any kind if they perceive the regulatory environment for biofuels as being unstable.
- **The likelihood of achieving the EU and national decarbonisation targets would be severely hampered in the area of heavy-duty transport.** This would impact the 14% target for renewables in the transport energy mix by 2030 in member states under the revised Renewable Energy Directive. It would in particular penalise member states with more ambitious national decarbonisation targets in the transport sector, such as Sweden's aim to reduce CO₂ emissions in transport by 70% by 2030. It would also restrict the ability of member states to achieve their clean procurement targets for heavy-duty vehicles under the revised Clean Vehicle Directive.

For these reasons, we ask the Commission to amend the Communication on the extension of the validity of the State aid rules to provide for a corresponding extension of the 2020 limit for operational support to crop-based biofuels under the Energy and Environment Guidelines (paragraphs 113 and 121) until December 2022, until updated guidelines taking into account the revised Renewable Energy Directive are in place for the post-2022 period. This extension should apply to sustainable pure biofuels as described above. For consistency, Article 43(3) of Commission Regulation (EU) No 651/2014 should also be amended accordingly.

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