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To: 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**

Circle K appreciates the opportunity to comment on the announced intention and offers our perspective on the targets for renewable energy in the road transportation sector as stated in RED I and RED II to come into force.

Circle K is a global fuel and convenience retailer with 130.000 employees. In Europe we are market leaders in Scandinavia, Ireland and the Baltics and present in Poland and Russia.

Circle K is an independent market player without any connections to the crude oil industry. Hence, Circle K is in principle neutral to the fuels put on the market. Still, the company supports the move towards a more sustainable energy usage. Consequently, Circle K is one of the major buyers and resellers of low and high blended biofuels in our markets.

Based on our market position we would like to convey some of our reflections related to the consultation on state aid to crop-based biofuels beyond 2020. Please find our overarching concerns as described below.

Please note that we also point to some possible directions for future political actions that could both stimulate use of renewable fuel components as well as warranting that European industry is not exposed to energy cost rendering industries less competitive towards intercontinental competition:

**Challenges:**

- The renewable fuel market is dominated by low blends. However, in some markets, high blends and pure renewable fuels are available primarily due to attractive incentive regimes. The result is that a few countries in Europe over-comply its renewable share in relation to the RED 1 requirement, resulting in higher national cost of goods for consumers in such countries
- The renewable fuel market is dominated by 1<sup>st</sup> generation biofuels. The limitations on fuel components based on such feedstock will inevitably result in a negative development and reduced use of renewable fuels unless so-called advanced feedstock fuels are made available on a significantly higher scale.
- It is not likely that EU will reach its 10% renewable fuel target within 2020, even with the help of current support regimes. Ending support for 1<sup>st</sup> generation fuels will further reduce the possibility of de-fossilization of the road transportation market and increase the fuel cost of B2B and B2C customers.

- Some countries have introduced requirements on advanced biofuels, but such fuels are scarcely available and cannot substitute 1<sup>st</sup> generation fuels. Scaling back support for 1<sup>st</sup> generation biofuels must be compensated by a significant upscale of EU support to 2<sup>nd</sup> generation projects. The timeline for reduced support for 1<sup>st</sup> generation biofuels should rather than a fixed date be linked to the such increased availability of 2<sup>nd</sup> generation biofuels.
- The advanced bio fuel available in the European market today sells at a significant premium towards 1<sup>st</sup> generation fuels. This is due, amongst other factors, to high production cost and the fact that some countries have already introduced national requirements for extensive use of 2<sup>nd</sup> generation biofuels which is not aligned with the availability of such products. Phasing out support for 1<sup>st</sup> generation biofuels will further escalate the fuel cost for European consumers in general.
- Non-harmonized introduction of advanced bio fuel requirements between European states creates significant distortion in the competitive landscape within Europe, unpredictable investment environment and consequently high investment risk. This hampers the investment interest in advanced 2<sup>nd</sup> generation bio fuel projects

#### **Suggested solution**

- Gradual phase out of the possibility to support 1<sup>st</sup> generation biofuels over the RED II period, harmonized with the availability of 2<sup>nd</sup> generation biofuels.
- Introduce uniform minimum incentives for advanced biofuels in all EU countries with a long term and pre-determined phase out plan. The aim to create a predictable investment climate stimulating 2<sup>nd</sup> generation production capacity.
- Generous support schemes for investment in second generation feedstock and fuel product production plants to stimulate availability and reduced market cost.
- Harmonized definition of 2<sup>nd</sup> generation biofuels across Europe, with no change guarantees, making reclassification of feedstock from waste to by-product impossible. Alternatively, with a long-lasting transition period significantly reducing political risk.
- Greater harmonization on national level of required use of 2<sup>nd</sup> generation biofuels to avoid escalating deficit created by some countries demanding high share of such fuels at the expense of other European countries, and to the added cost burden of its citizens.
- Revoke the 7% ILUC limitation on renewable fuels based on low risk feedstock produced in Europe, to stimulate both food and fuel production while maximising GHG reductions.