

## **Lantmännen's response to the Public Consultation on the Guidelines on State aid for Environmental protection and Energy 2014-2020**

Lantmännen welcomes the opportunity to comment on the European Commission public consultation on the revision of the Guidelines on State aid for Environmental protection and Energy 2014-2020 (hereafter EEAG), as part of the REFIT for new State Aid Guidelines in 2022.

In the following position paper, Lantmännen is calling the European Commission to ensure that Member States will continue to be allowed to provide support for all sustainable biofuels in order to effectively decarbonize the EU transport sector by 2050. The new EEAG must be aligned with the framework of the Renewable Energy Directive (hereafter RED II), which enables all sustainable biofuels, including crop-based biofuels that comply with the RED emission and sustainability criteria, to contribute the renewable energy target in transport.

In particular, banning the support for high blend biofuels solutions, disregarding their emission reduction potential, risks to severely slow down the reduction of CO<sub>2</sub> emissions in public and freight transport to the detriment of the increased 2030 climate ambition.

### **About us**

Lantmännen is an agricultural cooperative and Northern Europe's leader in agriculture, machinery, bioenergy and food products. We are owned by 20,000 Swedish farmers, have 10,000 employees and a turnover of Euro 5 billion.

Lantmännen's Energy sector is Sweden's largest producer of bioenergy products and biofuels. Our biorefinery Lantmännen Agroetanol produces ethanol with greenhouse gas savings of more than 90% as well as protein feed, carbonic acid and other biobased by-products. The feedstock consists of grains and residues from the food industry.

### **// Contribution of sustainable biofuels to EU transport decarbonisation**

The transport sector is currently the only sector where emissions continue to rise annually according to the UNFCCC. Latest figures indicate 8% renewables (RES, with multiple counting for some energy carriers) in road transport by 2018, which is below the trajectory set in the RED II. Of these 8%, 89% of the RES is sourced from biofuels, including 64.5% from crop-based feedstocks (EC SHARES 2019). The figures demonstrate that only by using sustainable, crop-based biofuels can the EU achieve its emission reduction targets in the transport sector. These fuels are the only market-ready, low-carbon fuel available to be used in conventional vehicles on

the road today to substantially reduce GHG emissions from the transport sector. They therefore represent a main solution to reach the 2030 climate objectives in transport.

Lantmännen's Agroetanol saves more than 90% of GHG emissions compared to fossil fuels, based on the GHG emissions savings criteria set out in the RED II. These sustainable crop-based biofuels also support food production and farmers' revenue and contribute to maintaining jobs in rural areas. In addition, we at Lantmännen often procure crops that are not of food quality or come from overcapacity, our biofuel production therefore mitigates the amount of food waste and provides the farmer with an additional revenue.

Besides, the delegated act defining high indirect land use change risk biofuels (high ILUC) already identifies bad performing crop-based biofuels, ensuring that the level of use of high ILUC risk crop-based biofuels and biofuels is gradually reduced to 0% during by 2030 (In Sweden from 1 January 2022). All other biofuels, including Lantmännen's bioethanol, should therefore be promoted and eligible to tax exemptions. The introduction of CO<sub>2</sub> tax in 1991 and the tax exemption for renewable energy carriers, e.g. biofuels, is the main instrument and reason behind the enormous success in Sweden when it comes to reduce CO<sub>2</sub> emissions and climate impact. The tax exemption is not and will not be a marginal instrument for Sweden in the struggle to decrease our emissions, but probably the most important one to support sustainable renewable energy v. fossil energy and to become climate neutral by 2045. It is our definite opinion that the EU should not stop an ambitious member state as Sweden to pioneer and show the way to other member states and countries around the world on how to design policies and measures to combat the climate change. As Lantmännen and the Swedish government see it, a skipped possibility to e.g. use tax exemptions for all sustainable biofuels would be very contra-productive if the EU is serious about its ambitions to reduce CO<sub>2</sub> emissions in EU as well as in the rest of the world.

In the context of the European Green Deal, it would thus be crucial that support to sustainable crop-based biofuels is ensured under the revised EEAG, so that governments and industries make use of all sustainable, low-carbon fuel technologies available.

### **The Swedish success story on biofuels**

In Sweden, a tax exemption for high-blend and pure biofuels (e.g. FAME100, biogas, HVO100, E85 and ED95) existing since 1991 has contributed to its success in phasing out fossil fuels and decreasing the CO<sub>2</sub> emissions massively in the transport sector during the last decades.

The tax exemption is fully directed towards consumers, not producers, and benefits any type of sustainable biofuel whether produced locally or imported. Further evidence shows that the vast majority of biofuels used in Sweden are imported (around 80%), which demonstrates that the Swedish tax exemption does not give preference to Swedish biofuel producers and should therefore not be considered as an operating aid.

The tax exemption is one of the main reasons why Sweden has the highest RED target for renewable energy (49%) in the EU, and why the use of biofuels has reached a level of 21.6% (with no double counting, 38.6% with double counting) in the transport sector. On 8 October 2020, the European Commission approved a continuation of the Swedish tax exemption for another year until the end of 2021. Decision [SA.55695](#) underlines that the use of motor biofuels produced from biomass is a vital part of the Swedish strategy on climate change, and that increased shares of biofuels are necessary for Sweden to achieve its 2030 EU renewable target, as well as its 70% GHG reduction national target for domestic transports by 2030 compared to 2010. Eliminating the possibility to grant support for crop-based biofuels beyond 2021, would create severe problems to achieve the ambitious Swedish climate agenda.

## **// Alignment of the revised EEAG with the Renewable Energy Directive (RED II)**

The RED II is a binding, primary act adopted by the co-legislators, which should also lay the basis for related political initiatives and guidelines, such as the EEAG. The revised EEAG should therefore not contradict nor undermine the RED II and allow all sustainable biofuels to receive support until 2030.

### **The context under which the existing EEAG were adopted is no longer valid**

The existing guidelines were drafted at a time where the so called 'food versus fuel' and ILUC debates were dominating the biofuels discussions by fully neglecting their vast potential to support the EU in achieving its climate ambition. Since then, the main controversies surrounding European crop-based biofuels, and bioethanol, have been debunked.

In the [2015](#) and [2017](#) Renewable Energy Progress Reports, the Commission already confirmed that European bioethanol had negligible impact on cereal prices and did not negatively impact food security. More recently, the [2020](#) Renewable Energy Progress Report reiterated that no correlation between food prices and biofuel demand in the EU in the recent years could be observed. In addition, Member States reported limited cultivation of feedstock used in biofuel production (which, in total, accounts for 3% of EU cropland) compared to total agricultural activities and therefore consider that associated environmental impacts are low.

The [GLOBIOM study](#) of the land use change impact of biofuels consumed in the EU also confirmed both that European bioethanol poses no negative impacts to food security and has low risk of land use change impact. This was further confirmed by the [2019 delegated Regulation on high ILUC-risk biofuels](#) and its accompanying [Report on the status of production expansion of relevant food and feed crops worldwide](#), based on the best available scientific data.

The most recent [Communication](#) on the progress toward the Fuel Quality Directive also confirms the importance of biofuels to decarbonise transport fuels, both in terms of quantities and GHG

savings. It confirms that European ethanol saves above 70% GHG emissions on average compared to fossil fuel and has limited ILUC impact.

Besides, crop-based biofuels produced in the EU have multiple other benefits which are often forgotten but important to acknowledge in a circular economy. Amongst other, they reduce our dependency on imported oil leading to a higher energy security. They also provide vital protein as a by-product, reducing the EU's dependency on imported protein from overseas (mainly large quantities of imported soy with questionable sustainability impact).

**There are no legal grounds to discriminate against sustainable biofuels, on the contrary**

Article 29(1) of the RED II supports the use of financial aid for all biofuels as long as they comply with the sustainability and GHG emissions savings criteria of at least 70% compared to fossil fuels. In that respect, we believe that the EEAG should not conflict this ambition and that Member States should be allowed to grant state aid to support the production of biofuels that are certified as sustainable, e.g. through differentiated taxation.

Furthermore, discriminating between crop-based and advanced biofuels is not justified according to the RED II post-2020. **The phase-out of policy support for crop-based biofuels in transport coupled with a partial phase-down post-2020, principle upon which the current EEAG are based, has been rejected by the co-legislators**, first in the 'ILUC Directive' 2015/1513 and more recently in the RED II. On the contrary, the co-legislators have renewed their support to all sustainable forms of biofuels.

Under the RED II, the use of sustainable biofuels, including crop-based biofuels, is key to achieve the targets, as they can count towards the obligation put on fuel suppliers to provide at least 14% of renewable energy in the transport sector by 2030:

- The contribution of crop-based biofuels shall be no more than one percentage point higher than their 2020 share, with a 7% maximum;
- RED II limits the phase-out of support to 'high-ILUC risk' biofuels, as defined in the Commission Delegated Regulation on high and low ILUC-risk biofuels (i.e. palm oil biofuels);
- Advanced biofuels, defined as those made from Annex IX-A feedstock (a definition that is lacking in the State aid guidelines), are subject to a dedicated ramping-up sub-target, reaching 3.5% of the energy in transport by 2030.

It would be inconsistent to have the RED II legislation supporting crop-based biofuels and the EEAG banning any financial incentives to the same biofuels. If there is some kind of "legislative

hierarchy”, we also think that intentions and details in RED should be above EEAG, which not even is intended to control which type of energy carriers that shall be used or not.

- The EEAG should **not contradict nor undermine EU primary legislation but rather reflect the decision from the Council and the European Parliament** to continue to support the use of crop-based biofuels. Besides, in accordance with the loyalty principle in Art 4(3) TFEU, the Commission should not take measures that impede the correct implementation of the RED II.
- Member States should be **free to devise policies, including supportive measures for all sustainable biofuels that can help them meet their renewable energy targets** and the binding non-ETS emission reduction targets, incl. transport, for which no cap on crop-based biofuels applies.

***Support schemes are justified where they create a level playing field for biofuels to compete with fossil energy sources and thereby increase the level of environmental protection***

The current volume-based approach to energy taxation leads to a paradoxical situation where renewable fuels – in particular renewable ethanol – are **by far the most taxed source of transport on an energy content basis despite the numerous benefits associated with blending renewable ethanol in petrol**, including lower CO<sub>2</sub> emissions and reduced non-CO<sub>2</sub> tailpipe emissions. Because of the lower energy density of ethanol compared to petrol, the volume consumption increases over the same distance. As a result, the tax burden is higher for clean renewable transport energy than for fossil energy. On a Euro per gramme of CO<sub>2</sub> equivalent basis, every gramme of biogenic **CO<sub>2</sub> emitted from ethanol is taxed up to 10 times more than fossil CO<sub>2</sub> emitted from petrol**. This is valid for all ethanol blended with petrol but aggravates in the case of higher blends, such as E85 and ED95, which could not make it competitively to the market unless differentiated taxation applies. **This argument is highlighted in Decision SA.55695 to justify the Swedish tax exemption for high-blend biofuels. As stated by the European Commission, without aid, high-blended biofuels would have the same tax rates under the current framework as fossil fuels and would not be competitive due to higher costs of producing and using biofuels.** This would directly result in a much higher use of fossil fuels in Sweden, which is in direct contradiction to the targets and legislation in both Sweden and EU.

Furthermore, as long as the external costs of fossil energy (on human health, the environment and in terms of energy security) are not internalised, the need to support renewable energies will remain. As a recent example, in [decision SA.56125](#), the European Commission refused to grant a tax exemption for sustainable crop-based biofuels used in heating beyond 2020. As a result, the industry is already switching to fossil fuels, as sustainable crop-based biofuels are too expensive without aid scheme. Similar situation would threaten sustainable crop-based biofuels used in the transport sector if tax incentives were banned beyond 2021.

## // Conclusions and Recommendations to the European Commission

- **Scope:** Lantmännen calls the European Commission to ensure state aid can support all sustainable biofuels under the revised EEAG post-2021.

There is no ground to rule out the possibility to grant aid schemes for sustainable, crop-based biofuels as long as the requirements of RED II are being fulfilled. In particular given the current taxation rules benefit diesel and petrol, sustainable biofuels - including high-blend solutions - would otherwise not be competitive.

We therefore ask the European Commission to take into consideration the important role sustainable biofuels play in decarbonising road transport. It is key that a better alignment of the EEAG with corresponding EU legislations, in particular the RED II, should be pursued.

- **Definitions:** The EEAG should also address the issue of definitions to allow for more clarity and consistency. The wording “food-based biofuels” is misleading and provides a negative connotation that crops grown for biofuels displace food crops, which is proven wrong by many scientific evidence as outlined above.
- **CCR:** In addition, the EEAG should make a reference not only to Carbon Capture and Storage (CCS) and the Carbon Capture and Utilisation (CCU) but also to Carbon Capture and Recycling (CCR) technology. The re-use of CO<sub>2</sub> supports Europe’s transition to a Circular Economy, whilst also ensuring waste CO<sub>2</sub> is utilised and not released into the atmosphere. Captured CO<sub>2</sub> from renewable sources is a green, commercial product which reduces dependence on imported fossil-based products, such as carbonic acid.

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