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AGRI-FOOD POLICY REVIEW
**EU Biofuels Policy:
Repercussions on Ukraine**

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Despite many concerns, the EU “Renewable Energy Directive” (EU RED) did not cause interruptions to Ukrainian rapeseed exports to the EU in 2011. On the contrary, Ukraine can position itself as a sustainable biomass supplier if producers and traders act proactively to prove compliance with the EU RED requirements.

The European Commission has set the ambitious target of increasing the share of renewables in the EU’s energy consumption to 20% by 2020, including 10% in transport, which is indicated in the EU “Renewable Energy Directive” (EU RED). The Directive introduced a number of sustainability criteria to be met by biomass and biofuels producers who brought their produce onto the EU market regardless of the origin of biomass production. The requirements were introduced to reflect public concerns about the likely negative effects of massive biofuel production, such as expansion of biofuels to natural habitats and little or no GHG emissions reductions compared to fossil fuels, etc. If fuel supply companies cannot prove compliance with the EU RED criteria, their biofuels cannot be counted towards the national renewable energy targets and cannot receive financial support (e.g. tax relief). EU RED required all member countries to effectively introduce sustainability requirements at the country level since January 2011.

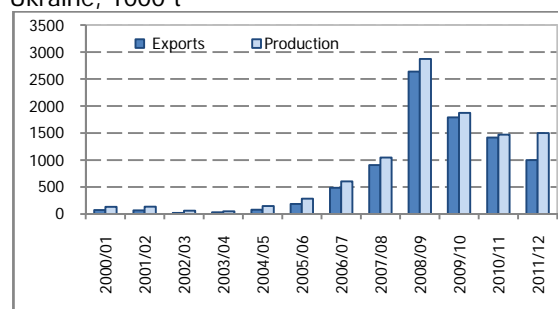
It was expected that the EU market will offer price premiums for certified biomass compared to non-certified one due to availability of government support programs for sustainable biofuels production. However, the pace of implementation of the EU RED greatly varies among member states. While Germany has introduced the EU RED criteria at a country level since January, 2011, other countries are still developing a national legal framework. In fact, demand for certified biomass dominated only the German biofuels market. As other EU-member states have been slower in the implementation of the Directive, demand for certified biomass was not high enough to create price premiums for certified biomass.

Ukrainian producers worried that feedstock exports, particularly rapeseed, could be significantly reduced due to the EU RED. Ukrainian rapeseed export is largely driven by the EU biofuels and food policy as more than 90% of domestically produced rapeseed is exported to the EU for vegetable oil production (for food and industry use). Figure 1 shows that rapeseed production and export have increased sharply from 2006/07 to 2008/09 but somewhat declined afterwards mainly due to the profitability of

rapeseed vis-à-vis other crops and weather conditions rather than restrictive influence of the EU RED.

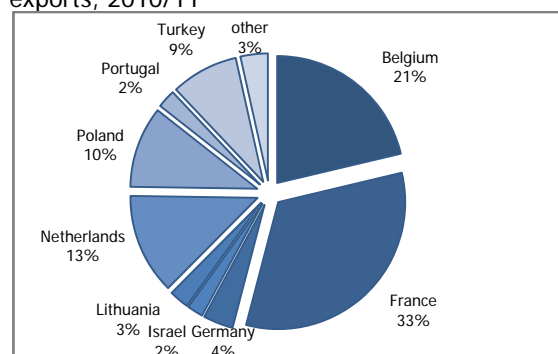
As of to date, 17 Ukrainian companies have gone through the certification process to prove compliance with the EU RED requirements. Other operators were able to sell their produce to countries which did not require sustainability certificates (other than Germany).

Figure 1. Rapeseed production and exports from Ukraine, 1000 t



Source: USDA

Figure 2. Destination of Ukrainian rapeseed exports, 2010/11



Source: UkrAgroconsult

Figure 2 shows that rapeseed exports to Germany constituted only 4%, which is a rather small demand for the EU RED compliant biomass. A number of other countries have significantly larger shares in biomass exports from Ukraine. In particular, 33% of rapeseed is shipped to France, 21% to Belgium, 13% and 10% to Netherlands and Poland, respectively. So, the EU RED enforcement by these countries could largely influence rapeseed production and exports in Ukraine in the near future. Therefore, Ukrainian biofuel feedstocks producers and traders which aim at the EU biofuels market should comply with the EU RED to maintain their positions in export markets and benefit from expected demand increase for certified biomass in the next couple of years. Ukraine has all preconditions to become one of the largest sustainable biomass suppliers.