

The double counting market in Europe: what to expect in 2015?

The Renewable Energy Directive (RED 2009/28/CE) states that waste-based biofuels can be counted twice in the calculation of the shares of renewable energies in transport. Indeed, by 2020, at least 10% of transport fuels will have to come from renewable sources.

The double counting system encourages the use of second-generation waste-based biofuels produced from such feedstocks as Used Cooking Oil or Animal Fat CAT 1 and 2 (not intended for consumption). As these raw materials represent a great savings potential regarding GHG emissions and considerable environmental advantages for the production of biofuels, **most of the EU member states have decided to establish the inciting double counting system.** But what keeps us awake at night is the future of this nearly saturated market: what can we expect from the double-counting sector in 2015?

Insubstantial implementation on the European market

After signing the RED directive by the European Union in 2009, the double counting system has been introduced in a number of member states. However, a few have still not implemented this powerful arrangement, inciting the consumption of biofuels produced from used oils or animal fat. Some countries simply do not want to apply it (Czech Republic, Sweden, Croatia); others are indecisive (Spain) or strongly restrain its application (Italy, France), whereas some are finally at the point of promulgating it (Poland). **Even if the implementation of double counting in new countries should stimulate the demand in 2015, the European market is already in saturation.** Between 2014 and 2015, seven new UCOME or TME factories will have opened up, with a total annual capacity of around 200 kilo tons. In addition, there are UCOME flows regularly coming in from Asia (Hong Kong, India, South Korea) to Europe since last year and, more recently, TME flows from Brazil. At the same time, several new plants in South Asia start producing biofuels from palm oil refinery waste (Palm Oil Mill Effluent or POME) and will compete with the UCOME and TME produced in Europe.



3 new markets opening up: Belgium, Poland and Spain

Like France, Belgium and Poland will limit the incorporation of double counting products in their mandate. Belgium will fix the limit at 1% of the diesel consumption energy value, whereas Poland is currently working on the details of the cap. The aim of the cap is to protect the local rape production and the RME producers. In Belgium, the market will be more open in 2015 due to the removal of quotas for four Belgian producers. At the same time, the producers of double-counting material will have to obtain an autorisation from the government before they can sell their product on the market.

In Spain, the law project revealed at the beginning of the year did not contain any restriction but solely pointed out the list of raw materials eligible for double counting. The oil sector strongly influences the political decisions linked to biofuels and therefore the politicians might favorably look at a double counting market without restrictions. This scenario would also allow the Spanish government to reach more

easily its renewable energy incorporation obligations, made more difficult since the ban on massive imports from Argentina.

Potentially, the opening up of these three new markets could increase the demand for UCOME and TME by 320 to 620 KT from 2015 on. Without restriction, the Spanish market would absorb 400 KT for itself, whereas Belgium (70 KT) and Poland (100-150 KT) would remain more restrained markets.

At the same time other countries will experience a limited growth of their markets. In the Netherlands the increase in the incorporation mandate to 6.25% should boost the demand for double-counting biodiesel by 40 KT. In France, the double-counting limit could be raised from 0.35 to 0.5% which should result in a demand growth by 60KT.

Future outlook: double vs. single counting?

In the case of a successful establishment of the double counting system in these countries, the demand for used cooking oil and animal fat will be significantly impacted,

the EU double counting market being at approximately 1800 KT in 2014. According to our estimations, Belgium, Poland and Spain's demand would represent a minimum increase of 18%, but could also make the market explode by about 35%. This growth potential should increase the market liquidity and redirect the prices towards an ascending path.

This price rise scenario, however, is to be moderated in sight of the experience of the first half of 2014. The sudden drop in vegetable oil prices has made the prices of FAME and simple counted biofuels very attractive, compared to those of UCOME and TME, the latter being less competitive.

Trapped by lower margin levels, the producers of double counted products were prevented from producing at full capacity.

In the worst case scenario, where double counting measures in other European countries will not be implemented, where Italy would not review its restraining law text and France would not increase the double counting limit, the future of waste-based biofuels in Europe might seem quite dark.

Finally, the greatest uncertainty of the year 2015 will be the introduction of the incorporation mandate based on the GHG emission reduction in Germany. The

distributors of fuels will have to review carefully their incorporation strategies in order to minimize the price of each percent of GHG emission reduction. As RME producers should be able to reach up to 60% of GHG emission reduction, the initiative coefficient for the incorporation of UCOME (between 83 and 90% GHG savings) will fall down to 1.5 while it will stay around 2 for other European countries.

We will dedicate a whole article to this subject in November when all the parliamentary approval processes will be completed.

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