

# European biofuel industry survey regarding the RED II proposal Briefing paper

October 2017 | Prepared for: Verband der Deutschen Biokraftstoffindustrie



**Bioenergy**

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## Executive Summary

Argus Consulting Services was commissioned by the Verband der Deutschen Biokraftstoffindustrie (VDB) to conduct a survey of the biofuel industry in relation to the RED II proposal. The goal of the survey was to understand industry views on whether there would be sufficient investment to meet the advanced biofuels target in the RED II proposal, and whether the reduction in support for first generation biofuels will affect investor confidence in advanced biofuels.

In total 26 respondents were surveyed from across the biofuel and associated sectors. The majority of companies surveyed were biofuel producers, but there were also a number of suppliers to the industry from the agricultural, chemical and forestry sectors.

According to the impact assessment for the RED II proposal, the European Commission estimates that €900mn/yr of investment in bio-refineries producing advanced renewable fuels would be required in order to meet the targets set in the proposed legislation<sup>1</sup>.

The main findings of the survey were:

- All of the respondents believed the proposal needed to change in order to sufficiently incentivise investment in the sector to meet the advanced biofuel target.
- 65pc of survey participants surveyed did not believe the proposal would incentivise sufficient investment in biofuels production.
- 81pc of survey participants believe that the reduction in support for conventional biofuels will cause a reduction in investor confidence.
- 54pc of respondents stated they are not planning to invest in biofuels, assuming the RED II proposal is transposed into law. 46pc are searching for opportunity but no respondents have funds committed.

Many respondents, in addition to searching for opportunities to invest, stated they still see biofuels as an interesting field of future investment. This suggests a more positive industry outlook than was implied by the views that there will be insufficient investment in advanced biofuel production and that investor confidence is expected to fall as a result of the reduction in support for conventional biofuels.

The apparently conflicting themes of low predicted investment but positive outlook can potentially be explained by examining respondent's motivations for entering the biofuel market and the reasons they are searching for opportunities to invest.

Those mainly driven by the legislation were typically more critical of the RED II proposal and therefore less likely to invest in future. Those stating business or environmental drivers as their main motivations were less reliant on legislative support, instead quoting synergies with other parts of the business or national and European carbon targets, such as the EU's targets for 2030 and COP21, as the drivers behind their interest in biofuel developments.

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<sup>1</sup> Commission Staff Working Document: Impact Assessment: Accompanying the document: Proposal for a Directive of the European Parliament and of the Council on the promotion of the use of energy from renewable sources (recast)

Several respondents that were searching for investment opportunity stated they were not encouraged by the proposal but were looking for options to protect or make use of their conventional biofuel assets when the legislation changed.

Of the suggested changes, most related to increasing the timeframe of legislation, increasing ambition and reducing regulatory risk.

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## Section 1: Introduction to the survey and respondents

The goal of the survey was to answer two main questions in the context of the EU Commission's proposal for the Renewable Energy Directive II (RED II):

- Will there be sufficient investment in advanced renewable fuels<sup>2</sup> to meet the targets set by the proposal for the RED II?
- Will the reduction in support for conventional biofuels, or other legislative uncertainty, affect investor trust for advanced biofuels?

A total of 26 responses to the questionnaire were collected from a cross-section of the biofuel industry. Many respondents represented companies with interests across a number of sectors but the majority were involved in biofuel production. Suppliers to biofuel producers were also well represented with responses from agricultural businesses, chemical and forestry companies.

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<sup>2</sup> To simplify the definitions, Argus has chosen to utilise two categories:

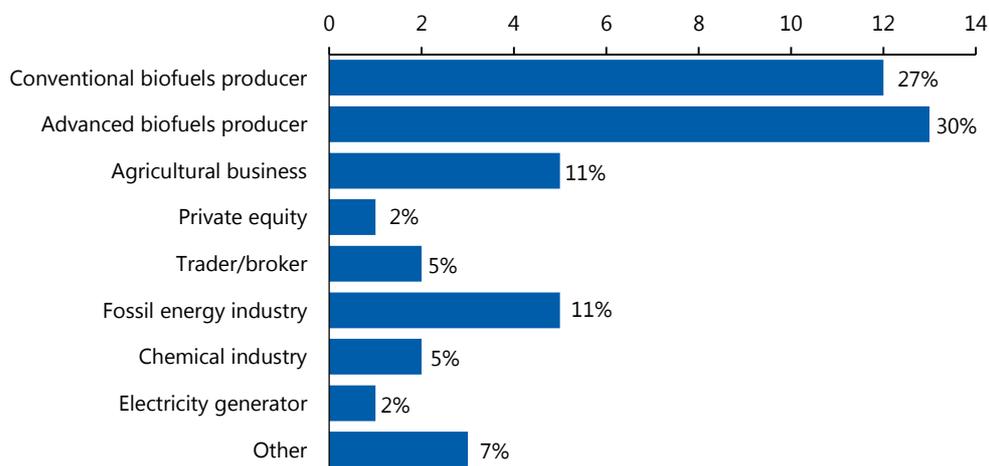
- Conventional biofuels: Defined as crop-based , or first generation biofuels
- Advanced biofuels: Defined as all non-crop biofuels, including waste-based biofuels, such as UCOME

## Section 2: Summary of responses

The following section provides a summary of the responses to the questionnaire, collected via both telephone interviews and written responses. It is divided into two sections, the first covering the key general questions concerning the respondents attitude to investment in renewable energy and their current activities in the sector. The second section covers the respondent's views of the RED II proposal and its effect on investor confidence in the sector. For the full results, including all additional context provided by respondents, please see the full report.

Survey responses were collected from a cross-section of the biofuel industry. Many respondents represented companies with interests across a number of sectors, but the majority were involved in biofuel production. Suppliers to biofuel producers were also well represented, with responses from agricultural businesses, chemical and forestry companies.

Figure 1 A1.1: Which of the following sectors does your business operate in?



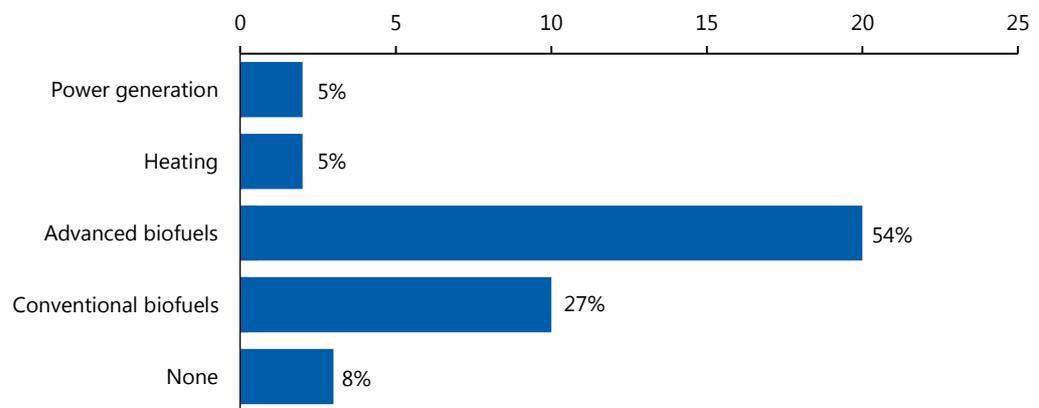
*Notes: Other category made up of Supplier to grain ethanol producers, Steel industry, Pulp & paper and Biogas production*

## Chapter 2.1: Survey results

There was significant interest among respondents in investing in the bioenergy sector in future. 88pc of respondents have previously invested in the biofuel sector, both directly and indirectly.

In response to a key question regarding whether they see bioenergy as an interesting field of future investment, many stated that advanced biofuels were of interest. However, in addition a significant number also stated that conventional biofuels were still of interest, despite the proposal for a cap reducing over time.

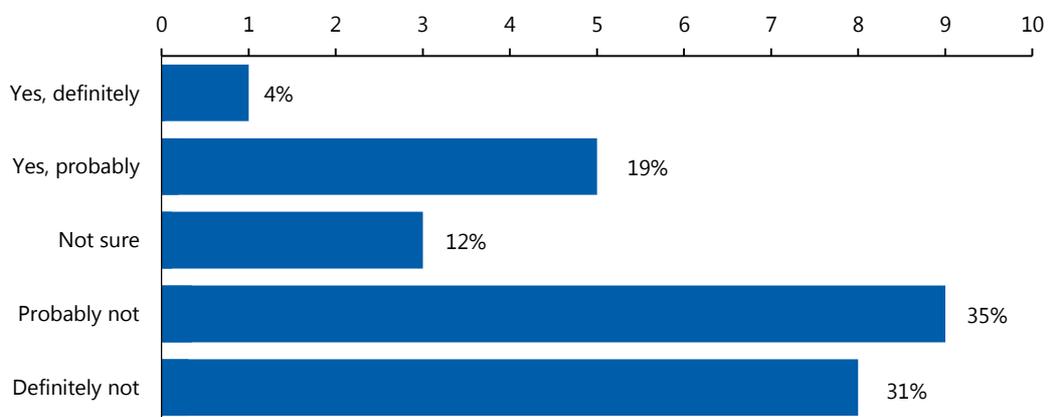
Figure 2 A1.4: Do you see bioenergy as an interesting field of future investment? If so, which of the following are you interested in?



The majority of the respondents indicated they are involved in either a conventional or advanced biofuels production plant. Most of the conventional plants were commercial-scale facilities currently in operation, while the advanced plants included pilot and demonstration-scale facilities, both in operation and under development.

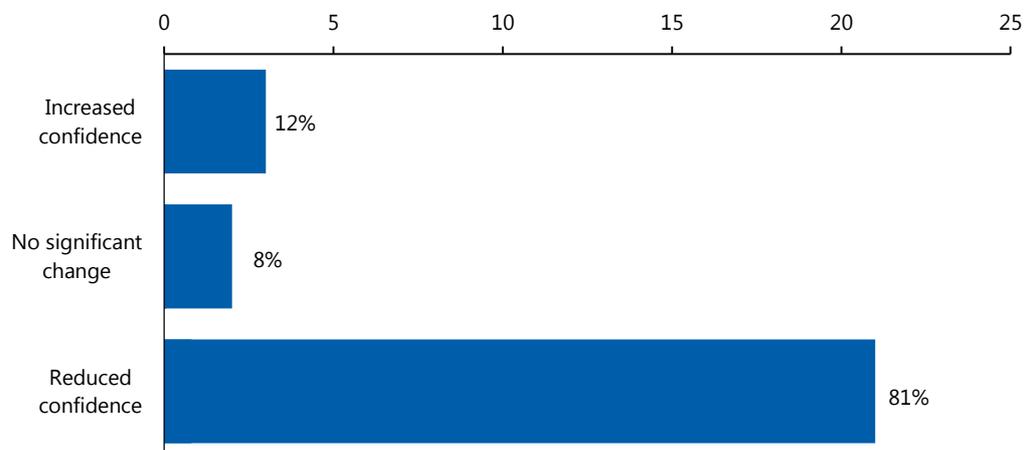
Most respondents did not think the RED II proposal provided sufficient incentive to justify investment in the advanced biofuels sector. Given the uncertain outlook for the market, some respondents were understandably unsure whether there would be sufficient investment as a result of the RED II proposal.

Figure 3 A2.1: Do you think the proposed targets for renewable fuels in the RED II proposal provide sufficient incentive to justify investment?



When asked how the reduction in support for conventional biofuels will affect investor confidence, 81pc thought that it would be reduced. The most common explanation for this was an increase in legislative uncertainty.

Figure 4 A2.3: How do you think the reduction in support for conventional biofuels will affect investor confidence in advanced renewable fuels?



#### 2.1.1.1. A2.4: What is the primary reason for this? (Reference to A2.3)

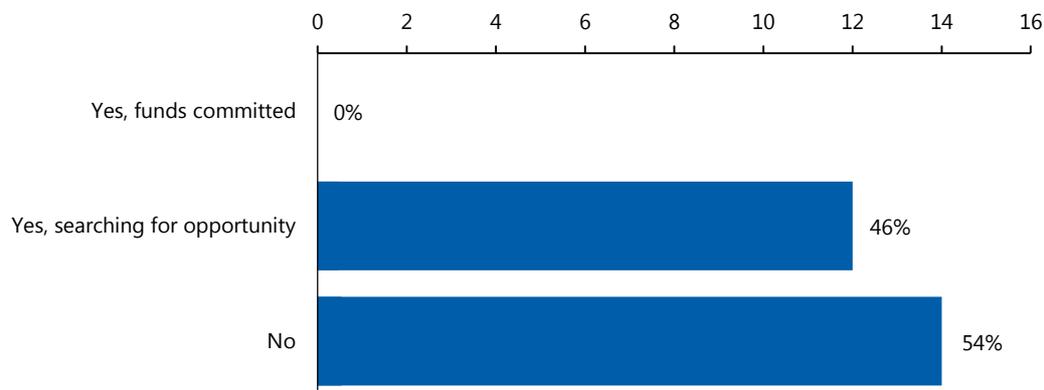
The following reasons were provided to explain a reduction in confidence in the industry:

- Creates legislative uncertainty
- Undermines investments in first generation production facilities
- Both parts of the market – conventional and advanced – are required
- High prices for second generation biofuels could drive up fuel prices, leading to a reduction in support due to public concerns

#### 2.1.1.2. A2.5 Do you plan to invest in advanced renewable fuels if the RED II proposal is transposed in to law?

No respondents indicated they had already committed funds investing in advanced renewable fuels based on the RED II proposal. Responses were fairly evenly split between those who were not planning to invest, and those that were searching for an opportunity.

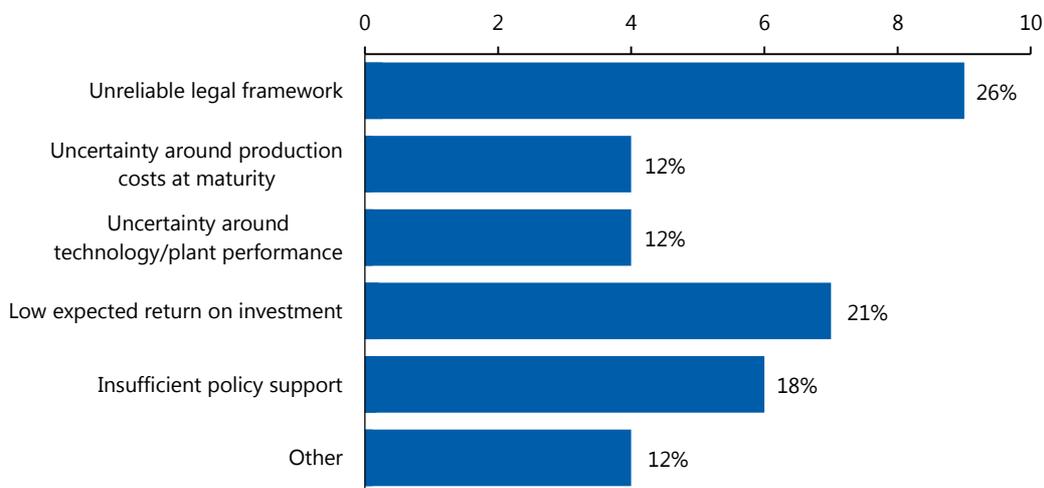
Figure 5 A2.5: Do you plan to invest in advanced renewable fuels if the RED II proposal is transposed in to law?



2.1.1.3. A2.6: If no, what are the barriers preventing your company from investing in advanced renewable fuels, assuming a binding target for them is introduced?

Respondents who were not planning to invest in biofuels stated issues around legislative support and uncertainty around technology as the main barriers to entry. Specifically the reliability of policy support was the most common response, followed by low expected returns on investment.

Figure 6 A2.6: If no, what are the barriers preventing your company from investing in advanced renewable fuels, assuming a binding target for them is introduced?



Notes: Other category made up of "no binding target", "no recognition of CO fuels", "UK leaving EU", "no feedstock for Part A"

## Chapter 2.2: Discussion of results

The survey set out to answer two main questions – will there be sufficient investment in advanced renewable fuels to meet the target in the RED II proposal, and what effect will the reduction in support for conventional biofuels have on investor confidence in advanced renewable fuels.

The majority of market participants surveyed did not believe the proposal would incentivise sufficient investment in biofuels production<sup>3</sup>. This corresponds with the majority of views that the reduction in support for conventional biofuels will cause a reduction in investor confidence.

The expectation from the biofuels industry that investment will be low in future runs counter to the results of the questions around interest in future investment. Many still see bioenergy, and specifically advanced biofuels, as an interesting field of future investment. In addition, many declared they are currently searching for an opportunity to invest in the sector. Both of these responses point towards a more positive reaction to the legislation which may be partially explained by examining the motivation for investing or participating in the market. It is worth noting, however, that a number of respondents stated they were investing in order to protect or make use of their conventional biofuel assets when the legislation changes, rather than being encouraged by the proposal.

When asked about their motivations for entering the advanced renewable fuels market respondents typically referred to legislative, business or environmental drivers. Those referencing previous and current legislation as the dominant drivers were typically the most opposed to the RED II proposal. Many have experienced the frequent changes to legislation over the previous decade and are therefore highly critical of future legislation for potentially permitting a similar situation.

Respondents stating business drivers, such as expansion into new sectors or synergies with other business units within the group, were less critical of the legislation but were less reliant on long term, stable legislation for economic operation.

Respondents stating environmental or moral drivers for involvement in advanced biofuels were typically the least critical of the legislation, while their motivations were less affected by uncertainty in the industry caused by legislation. Reducing carbon emissions and more effective use of waste materials are global drivers independent of European policy, so these companies continued to pursue these goals regardless of the EU legislation in force. Economically sustainable production was still stated as a serious concern, but they appeared unlikely to turn to other sectors due to unfavourable policy support. It is worth noting that while current and future biofuels policy has been highlighted by respondents as uncertain and a barrier to investment, the requirement to reduce carbon emissions at a European and global level has become more important.

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<sup>3</sup> Respondents were not asked what level of investment would be required, however the European Commission estimated it to be around €900mn/yr