

Biofuels: growth through mandates

London, The use of biofuels as a motor fuel in Europe has increased rapidly in recent years. It currently accounts for around one percent of total road fuel in terms of energy content. The main driver of this growth is the European Biofuels Directive, setting a target for biofuels to account for 5.75% of total road fuel sales by 2010. A new report* from independent market analyst Datamonitor (**DTM.L**) shows that although the EU's interim target of two percent by 2005 was missed and the 2010 target is also unlikely to be achieved, the penetration of biofuels into the road fuel market will continue to grow on the back of national legal mandates and increased availability at the pump, even in countries like the UK that have traditionally lagged behind in terms of the utilization of biofuels.

European Union the main supranational driver of biofuels

Sales of biofuels have increased rapidly in Europe since the introduction of the European Biofuels Directive, which states that biofuels must account for 5.75% of member states' transport fuel by 2010. Penetration of biofuels into the European road fuel sector increased from 0.5% in 2003 to one percent in 2005, says Datamonitor forecourts analyst Ricky Hill. "Furthermore, support for biofuels at the EU level is showing no sign of waning. Despite missing the 2005 EU target for biofuels to account for two percent of transport fuel, EU energy ministers agreed in February 2007 to increase this target to 10% by 2020," he says.

The European Union is a particularly strong advocate of biofuels rather than other alternative fuels because it believes that they are currently "the only direct substitute for oil in transport that is available on a significant scale". Replacing diesel and petrol with fuels made from renewable sources also helps the EU in achieving other goals such as meeting climate change commitments, ensuring a security of supply of road fuel and promoting renewable energy sources.

Penetration of biofuels varies greatly between Member States

Despite high growth at a European level, the penetration of biofuels into the road fuel market varies greatly between member states. The success of biofuels is highly contingent on national governmental measures to encourage the use of biofuels through financial incentives and, in some cases, legal obligations.

At one end of the scale is the highly successful Swedish biofuels market in which renewable fuels represent three percent of road fuel sales in energy terms. The Swedish market has been bolstered by tax breaks such as all carbon dioxide neutral fuels being exempt from carbon and energy taxes. The use of biofuels is also encouraged by a range of other financial incentives. For example, drivers of cars that run off biofuels in Stockholm benefit from free parking and exemption from congestion charging.

Strong institutional support has also led to increased availability of biofuels at Swedish service stations, Hill says. "There are currently around 800 sites in Sweden retailing E85 (85% bioethanol blended with 15% gasoline), equivalent to over 20% of the entire fuel retailing network.

"Furthermore, this number is increasing. Statoil has been expanding its E85 network in Sweden, dramatically having doubled the number of its E85 sites during 2006 to 185," he says.

At the other end of the scale are countries such as the UK where tax rebates on biofuels are limited. This has led to minimal uptake in the UK with fuels from renewable sources representing less than a fifth of one percent of total transport fuel.

However, although consumption of biofuels is currently low, availability in the UK is increasing. The number of service stations selling biodiesel increased almost five-fold between 2006 and 2007, with numbers growing from 110 to 499 - equivalent to five percent of the fuel retailing network. The bulk of this increase can be attributed to the oil company Total, which offers biodiesel at 331 of its service stations. Other significant retailers of biofuels in the UK are the independent company Rix, as well as the Asda and Tesco supermarkets chains, Hill says. "The increase of sites has been helped by the fact

that biofuels are generally sold as low blends in the UK which can be used in vehicles without requiring conversion.”

Member States adopting mandates to oblige retailers to sell biofuels

Despite the fact that the EU missed its 2005 target, all the evidence points to renewable fuels becoming even more important on the European forecourt. This is because, along with the financial incentives and the growing availability at the pump, European governments are increasingly mandating through legislation that biofuels make up a specific proportion of road fuels.

The UK's Renewable Transport Fuel Obligation (RTFO) mandates that from April 2008 biofuels must make up at least 2.5% of transport fuel suppliers' sales by volume, increasing to five percent by 2010. Meanwhile Germany has introduced the compulsory blending of at least 1.2% of biodiesel with regular diesel from January 2007. France, Sweden and Italy have also introduced obligations on fuel retailers to sell biofuels, Hill says.

“As such, financial incentives to use biofuels are increasingly being complemented with legal mandates on fuel retailers. This has seen even those countries such the UK and Italy, which historically have not offered a range of financial incentives, forcing fuels retailers to sell biofuels.

“In such an environment, the future growth in sales of biofuels is much more secure than it was a few years ago,” he says.

By Ricky Hill, Datamonitor forecourts analyst

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