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AGRI-FOOD POLICY REVIEW

Biofuels policy in Ukraine: The need for critical re- thinking

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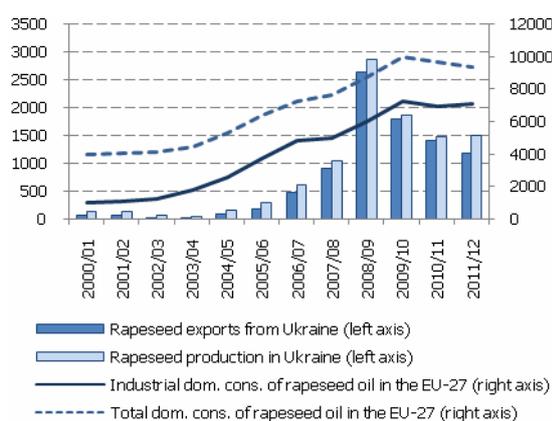
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Recently, the Parliament of Ukraine has considered two draft laws on developing biofuels production and consumption. One of them has been signed by the President. The draft laws set forth mainly production and blending mandates for biofuel. In our opinion these legislative initiatives were proposed without due critical review of the international experience and economic analysis, and might inflict significant negative economic and environmental consequences for the country. We strongly recommend to the government to reconsider its principles of biofuels policy.

In the course of the last five years biofuels feedstocks production in Ukraine has drastically increased and it has been largely fueled by the EU biofuels policy. In particular, rapeseed production in Ukraine (mainly exported to the EU for biodiesel production) has increased by more than 10 times over the last decade, peaking at about 2.9 m t in the 2008/09 marketing year (see Figure 1).

Figure 1. Rapeseed production and exports from Ukraine and rapeseed oil consumption in the EU-27, 1000 t



Source: USDA; industrial rapeseed oil consumption is used as a proxy for biodiesel production.

EU biofuels market significantly expanded since 2000 due to a variety of support schemes introduced by different member states. Most commonly used economic production and consumption incentives are tax relieves (currently being phased out) and blending mandates. This is necessary as biofuels from oilcrops and grains have not been competitive with often heavily subsidized fossil fuels. Energy security and GHG emissions reduction objectives were put forward as a justification for this policy.

The EU biofuels policy has been constantly severely criticized by scientists and NGOs for its cost inefficiency and weak sustainability criteria. In particular, an OECD report argues that EU biofuels policy is highly cost inefficient, will bring limited

GHG emissions reductions and puts pressure on world food prices.

Although certain sustainability criteria (see AFPR#3) were introduced to minimize the risks, scientists are concerned that reaching a 10% of renewables (mainly biofuels) target in transport introduced by the Renewable Energies Directive ("RED") will result in indirect land use changes in developing countries, causing an increase of GHG emissions that will further question the expected benefits of the EU biofuels policy. Currently, the European Commission has been put under increasing pressure to drop the 10% renewables target in transport and redirect state support to second and third generation biofuels.

A brief critical analysis of the EU biofuels policy above shows that it is not a good example to follow for the Ukrainian government which has recently considered two draft laws on biofuels. In particular, the draft law#7524 suggested minimal production targets for biodiesel and bioethanol (and was vetoed by the President on 22nd of June). Draft law #10572-1, however, was signed by the President on 17th of July, 2012. The law introduces a recommended 5% target of bioethanol content in motor fuels in 2013, turning it into mandatory by 2014 and further increasing up to 7% by 2016. The law is highly criticized by technical experts since blending mandates could create compatibility problems for fuel system components in old cars. Moreover, the risk of further economic incentives via possible amendments of legislation (e.g., subsidies, export quotas) to support the competitiveness of biofuels is increasing and this would impose additional burden on the state budget and will stimulate development of yet another inefficient energy market.

In our opinion, therefore, it is too costly and ill advised for the country to develop its biofuel production and consumption in a way that is done by a number of countries (e.g. Australia, Canada, USA) and the EU, i.e. via blending mandates and different state support programs. The EU biofuels policy clearly witnessed for its cost inefficiency and is highly questionable regarding the capacity to meet its environment objectives. Moreover, biofuels will not help much to reduce Ukraine's energy dependency. It is well known that Ukraine has been among the highest energy intensive economies in the world (measured as energy use per GDP). Is then producing expensive biofuels for using them very inefficiently in outdated technology an adequate strategy? Focusing on decreasing its energy intensity, on more promising second and third-generation biofuels and letting the farmers to benefit from current high world agricultural prices would be much better policy in this case. We thus strongly advise the government to reconsider its principles to its biofuels policy.