Goal Conflicts in the Biofuel Market
Consequences for the Consumer

Biofuels not only help to avoid CO₂ emissions, but also provide a new sales channel for agricultural production; they are to create the basis for a “decentral biofuels industry”, and to contribute to “promotion of rural areas”. The two-pillar strategy was intended to create an independent market for neat biofuels (B100/E85). A great deal of funding was put into building an extensive subsidy system at the expense of consumers, making biofuels look competitive despite the fact that they are substantially more expensive. As with any intervention in the market economy, goal conflicts are inevitable.
1 The Goal of Promoting Rural Areas

Agricultural subsidies are by far the largest budget item of the European Union. As budget debates become more and more critical, and above all with a view to Eastern enlargement of the EU, it was necessary to find a new form of financing, a kind of debt rescheduling. The creation of a compulsory distribution channel for food crops by converting them to fuel was a solution to the problems of financing agricultural surpluses, and of lack of competitiveness in the global market. The cost of subsidies for farming is borne directly by consumers, in the form of higher fuel prices.

The calculation is working out. Agriculture benefits enormously from this development. The food market and the biofuels market are competing for the same raw materials. If more biofuel has to be blended with gasoline, but the supply of the necessary bio-materials is not available in the medium term, that will cause a price increase not only for biofuels, but also for food. In the present market, which is in a state of equilibrium, the biofuel trend has raised rape-seed prices by 50% within two years, and more than doubled grain prices to the previous level in the same period, Figure 1. The goal conflict is evident – income improvements for farmers from biofuels versus higher food prices. The statement of one MP who wanted to make more use of compulsory blend quotas seems to provoke this development to go much further. A sense of proportion is needed for compulsory quotas, to enable growing of biofuels to keep pace for “table and tank”.

2 The Goal of Promoting Independent Biofuel SMEs

The conditions for biofuels producers were initially a kind of paradise, with full tax exemption and low raw material prices. Especially in the biodiesel sector, that triggered rapid development, using relatively simple production plants, reaching peak capacities today of nearly 5 million tonnes. The hype promoted not only efficient, technically sophisticated operations, but also the creation and survival of inefficient facilities.

When the Biofuels Quota Act entered into force on 1 January 2007, that gave the industry a sales guarantee with planning security for a substantial proportion of their annual production, regardless of price developments. In addition, tax subsidy is granted for an unlimited quantity. In accordance with established political practice, this support is designed to decrease in the course of time, as in the case of the Renewable Energies Act (EEG). In responsibility towards the tax payer, the emphasis is now being put on innovation and improved efficiency, following years of incentive subsidies.

While this development is pleasing for farmers, it is now becoming a dilemma for biofuel producers. Rising raw material prices mean reductions in their earnings. In the extreme case, that means certain domestic production is no longer competitive. Ethanol made from grain can no longer compete with ethanol made from sugar cane, at the current prices in excess of 230 euros per tonne (calculated on the basis of the JRC WTW study). For the first time, this has caused one ethanol manufacturer to shut down a plant at least provisionally, Figure 2.

Government is coming under more and more pressure to support the profitable sale of increasing over-production of non-competitive biofuels by subsidies from the state budget, in combination with more stringent blend obligations. And there is another goal conflict for