

The biodiesel market in Romania

Although in the last years biofuels production was almost inexistent in Romania – the country missed the 2% EU target for 2005 - the biodiesel market is experiencing a recent but strong development. This is mainly due to adoption of a set of legislative support measures, notably the introduction of a 2% blending mandate for biodiesel. This was adopted as a response to recurrent criticisms by stakeholders for the lack of appropriate framework supporting biofuels deployment. Indeed, Romania had to wait its accession to the EU and the subsequent entry into force of the new Fiscal Code on January 1st 2007, to grant tax exemption for biofuels. The recently adopted scheme is giving significant perspectives for the biofuels/biodiesel, giving rise to considerable investments in that sector.

Legislative framework

Transposition of Directive 2003/30 and national indicative targets

Directive 2003/30/EC on the promotion of the use of biofuels or other renewable fuels was transposed into the Romanian legislation by the Governmental Decision no. H.G. 1844/2005 concerning the use of biofuels and other renewable fuels for transport, published in the Official Monitor n° 44 of 18 January 2006. Romania has adopted the following targets:

-2% by 2007 (date of Romania accession to the EU)

-5,75% by 2010

Detaxation schemes in favour of biofuels/biodiesel

Within the Romanian Fiscal Code (Law 571/2003), the non conventional biofuels (biodiesel) are exempted from taxes.

A New Fiscal Code (Law 343/2006) is applying as from January 1st 2007. The Law 343/2006 in its 201 article gives a full detaxation for biodiesel. The full exemption from the excise tax applies only for the FAME content. The Ministry of Economy and Trade and the Ministry of finance are working in collaboration with Petrom, Lukoil and Rompetrol on methodology norms regarding biofuel tax exemption in the new code fiscal. In July 2007, the excise on conventional diesel was RON 918,938 (= €260).

Mandates

A new legislation has been adopted in May 2007 (Government Decision no 456/2007, published in the Official Monitor no. 345 from 22 May 2007). It modifies Decision no. 1844/2005 to provide for the gradual introduction of mandatory targets (by volume):

✓From 1st July 2007: 2%

✓From 1st January 2008: 3%

✓From 1st July 2008: 4%

Governmental Decision 456/2007 also introduces a new article 12 indicating the level of sanctions in case of failure to blend in the above-mentioned proportions: a fine between 7500 and 15,000 lei will apply.

Quota

At present, no quota for the production of biodiesel applies in Romania.

Direct subsidies

The Romanian state gives farmers 50 euros per hectare in subsidy, in addition the EU 45 euros/ha grant for growing energy crops.

SWOT analysis

Strengths

FEEDSTOCK SUPPLY

Romania has a huge potential in terms of biodiesel crop production. The country could theoretically produce 3 to 4 times more than what is necessary to comply with the 5,75% target.

LOGISTICS

Biodiesel production will certainly benefit from Romania's good inland waterways and maritime network, with both direct access to the Black Sea and the proximity with the Danube river.

LEGAL FRAMEWORK IN SUPPORT OF BIODIESEL PRODUCTION

Since July 2007, a 2% blending obligation applies in parallel to a detaxation of the FAME content in blends. The obligation will rise at 4% in 2008. Most importantly, a penalty is foreseen for those fuel suppliers that would fail to reach to mandatory share of FAME.

Weaknesses

METEOROLOGICAL CONSTRAINS FOR FEEDSTOCK PRODUCTION

All regions of Romania are not suitable for biodiesel crops production (sunflower and rapeseed) because of extreme weather conditions.

ROAD TRANSPORT NETWORK

While Romania is a major crossroad for international economic exchanges in Europe, so far insufficient investment has been made in the transport infrastructure.

Opportunities

CAPITALIZING ON THE RURAL ECONOMY

Although Romania' economy is nowadays mainly service-driven, the agricultural sector still makes up 10% of the country's GDP.

SYNERGIES WITH NEIGHBOURING COUNTRIES

Romania, as the whole south-East part of the EU and the Balkan region has a very high potential for biodiesel production. If the additional potential of Ukraine is exploited, it is estimated that the region could satisfy about 25% of the EU needs. Romania could also export biodiesel feedstock towards Bulgaria, which is lacking appropriate feedstock for the time being.

INVESTMENTS IN THE TRANSPORT SECTOR

In the recent years, Romania has benefited from several grants for the modernization of the road transportation (EU funds from ISPA, World Bank, IMF, etc.) so that it could rapidly catch up with EU15 standards.

GOVERNMENTAL SUPPORT MEASURES

The Romanian Government is considering a promotion campaign in favour of biofuels, if the recently adopted measures (mandate) are not triggering a rapid change in consumer behaviour.

Threats

LEVEL OF THE BLENDING MANDATE AND RELATED PENALTY

At present, the blending mandate of 2% is probably too low to trigger the emergence of an effective biodiesel market. In addition, the level of the penalty for fuel suppliers failing to reach the mandate is probably too low (up to 15 000 Ron) to create a sufficient incentive.

ABSENCE OF PRODUCTION QUOTA – IMPACT ON PUBLIC FINANCES

In the absence of a production quota, detaxation of the FAME content theoretically apply to unlimited quantities. In view of Romania's considerable potential for biodiesel production, this could represent a burden for the public finances.