

EBB

European Biodiesel Board

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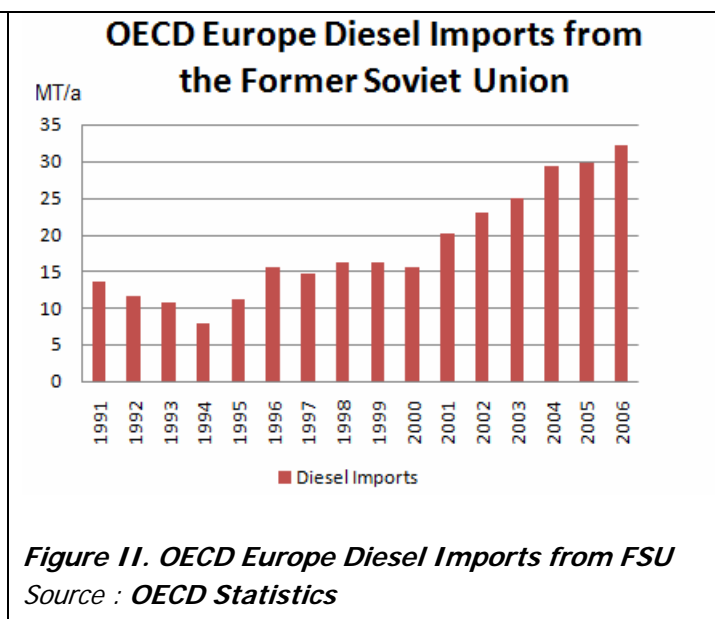
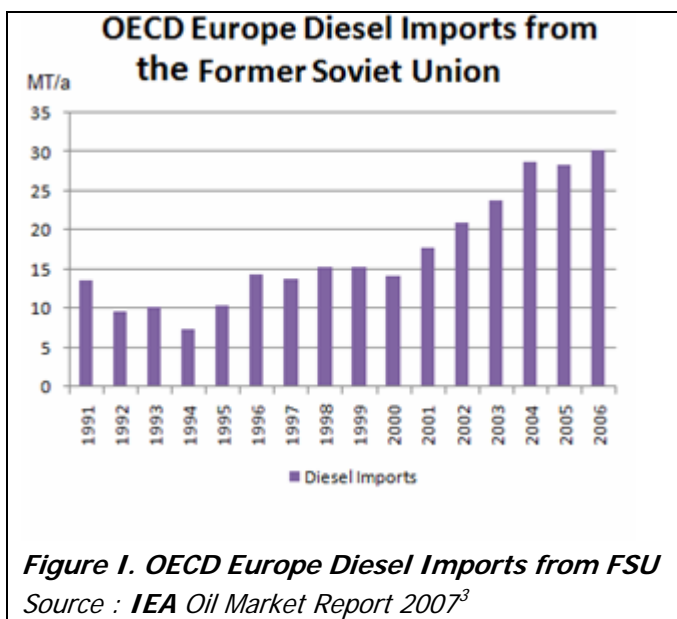
FACTSHEET

An Economic and Security of Supply analysis of the widening EU Diesel Deficit

How Biodiesel can provide a solution

Recent studies confirm that the EU Energy Security Agenda is faced with an increasing **Diesel Deficit**. The growing trade imbalance is between the EU and the former USSR, which is alarming from a twofold perspective: an economic one and a security of supply one.

While research focused more on the EU diesel consumption estimates, the trend today is to model the supply side. Statistics illustrate that the **EU Diesel Deficit is increasing in absolute terms**, the data showing that **in 2006 OECD Europe imported from the Former Soviet Union 32 million tonnes (OECD estimates) or 30 million tonnes (IEA¹ estimates)²**:

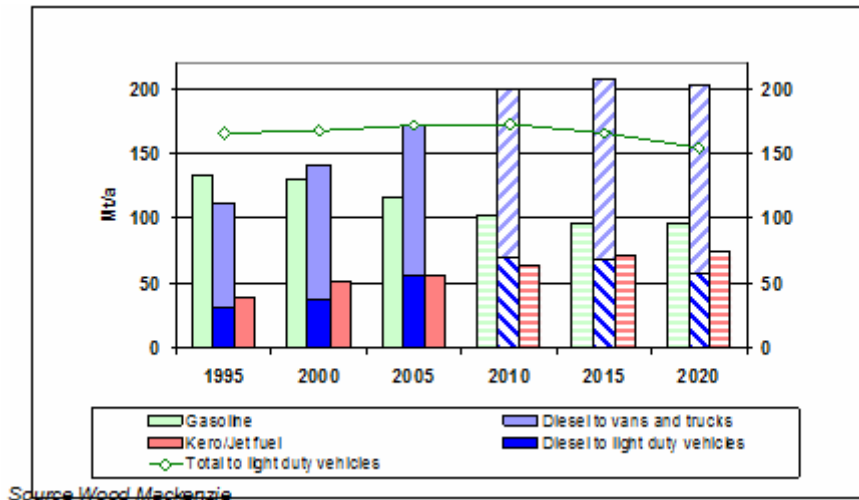


¹ IEA data is given in million barrels per day; conversion factors used: average value for diesel oil 40 at 15°C with a density of 0.850 kg/L; 1 metric tonne = 1000 kg/0.850 kg/L = 1176.47 liters

² The discrepancies between OECD and IEA data come from the collection side, EBB signaling to EUROPIA (European Petroleum Oil Association) that unique figures for EU imports should be provided by international organisations

³ « Oil Market Report », International Energy Agency, Aug 2007, p.40

Moreover EU is shifting decisively towards a diesel economy:



Source Wood Mackenzie

Figure III. Progression of the EU diesel and kerosene demand and regression of the gasoline demand

- Road fuel demand steadily shifting from gasoline to diesel
- Heavy duty diesel demand and jet kerosene expected to grow

Eurostat figures are showing the upward trend of the diesel demand in the EU compared to the downward trend of gasoline consumption:

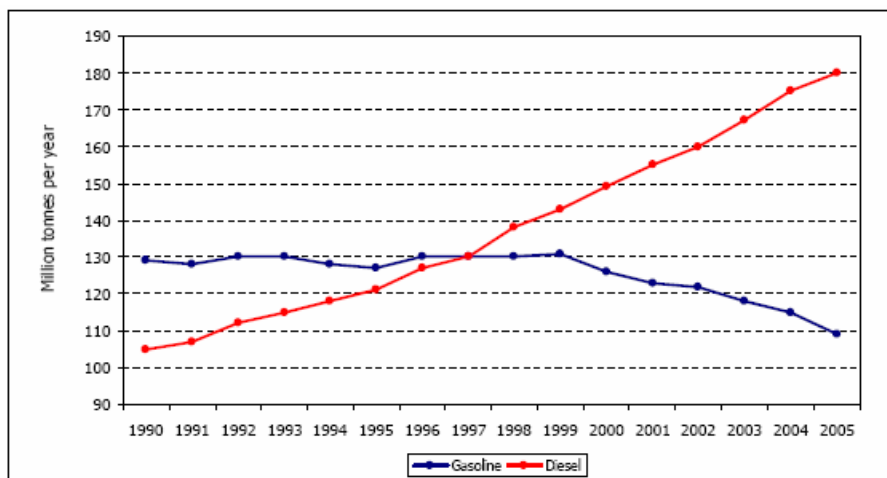


Figure IV. Evolution of the diesel and gasoline demand in the EU

Source: Eurostat (historical data)

In addition, EU car registration figures show that the majority of new cars purchased are diesel cars⁴ (70% of new cars in France, Italy, Belgium are diesel cars).

⁴ ACEA Winter report, February 2008

In the same time, **US and China will face the same diesel deficit problem**⁵, demand in both countries and other Asian ones (i.e. India) is forecast to increase.

However **diesel refining investments are lagging compared to the above forecast demand**. Even if we add the planned investments in the Russian refining industry to the export refineries geared towards Europe, they will still not be able to meet the growing deficit:

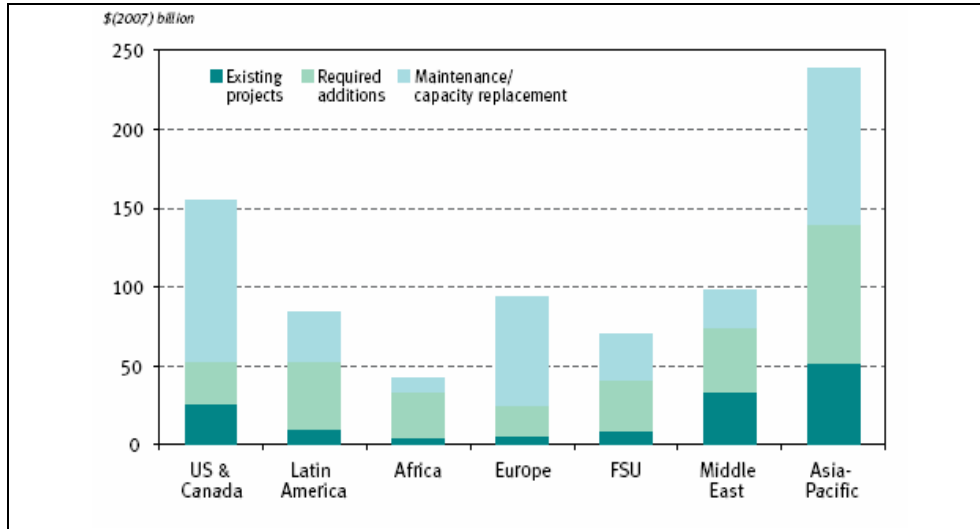


Figure V. Global refinery investments expected and required
 Source: OPEC World Oil Outlook 2008

The case is different for **gasoline**, EU having an exceeding refining capacity.

Therefore, **while the diesel EU economy will face an increasing dependence of diesel imports from unstable areas, EU is exporting gasoline and will continue to do so, its main market being the US:**

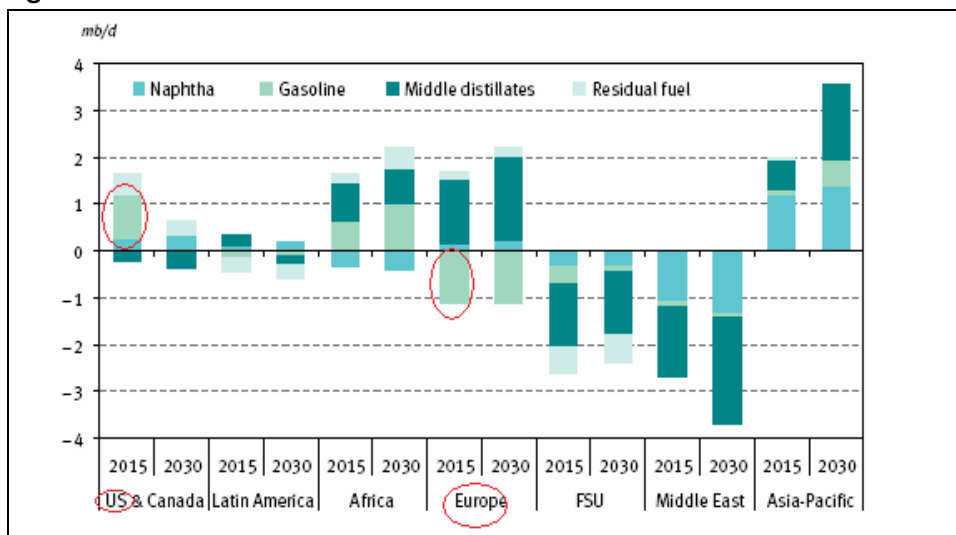


Figure VI. Net imports of refined products by region
 Source: OPEC World Oil Outlook, 2008

⁵ Wood Mackinsey Report "The Long and Short of It—European Product Imbalances and their Implications", 2005

All these show that competition on the diesel upstream market is becoming steeper than ever before, demand for diesel being expected to grow by more than 60% by 2030.

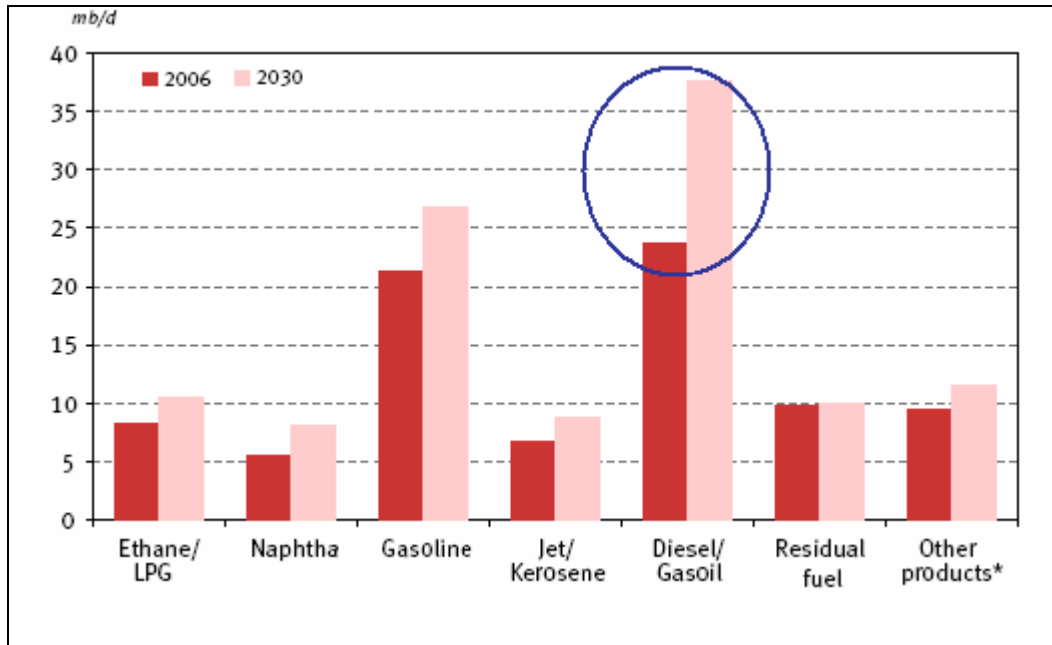


Figure VII: Global demand by product

Source: OPEC World Oil Outlook, 2008

Against this background, two main concerns challenge the status quo in Europe:

1. Economic situation: the diesel deficit and the increased diesel competition risk to worsen the economic situation of the European Union. In times of scarcity, like we are facing today, high mineral oil price volatility is bound to trigger oil peaks with higher frequency of probability. Links between commodities markets and financial markets are numerous. If some face distress there are costly repercussions in all economic sectors. It is important to make efforts for such scenarios to be avoided.

2. Security of supply: the international situation (instability in Caucasus, Middle East and Asia) proves the shift back to Political Realism⁶. **The EU is overwhelmingly diesel dependent on Russia (in 2000 EU imported 14 Million tonnes of diesel from Russia whilst in 2006 it imported 30 Million tonnes⁷).** Moreover the Georgian conflict and the Ukrainian-Russian relations show the power discourse of Russia as a diesel supplier⁸. The EU is therefore increasingly dependent on instable sources that look more for making bilateral agreements with EU Member States, reducing Europe's negotiation leverage as a trading block. Having this in mind, it would be more appropriate to increasingly consider at EU level the diversification of energy, especially since energy and diesel supply are lifted at the rank of strategic concerns.

⁶ International Relations Theory that focuses on realism in diplomacy and the use of power that prevails ideology and morals.

⁷ IEA Oil Market Report, Aug 2007, p. 40; Eurostat, IFP, OECD Statistics;

⁸ Foreign Affairs, August 2008

In this frame, **EU Biodiesel could provide a practical and sustainable solution to decreasing both the diesel deficit and the exposure to instable diesel providers.**

The **EU biodiesel production capacities** already in place **rise to 16 million tonnes**. Therefore there is a substantial potential to replace an equivalent quantity of the EU 2010 diesel consumption. This capacity was being put in place and projected in accordance with the 5,75% indicative target for the EU biodiesel consumption in 2010⁹. This capacity exists and has a great potential to contribute to strengthening the EU economy, to decreasing the EU diesel deficit and help fulfilling the ambitious EU targets for GHG emissions reductions and renewable energy.

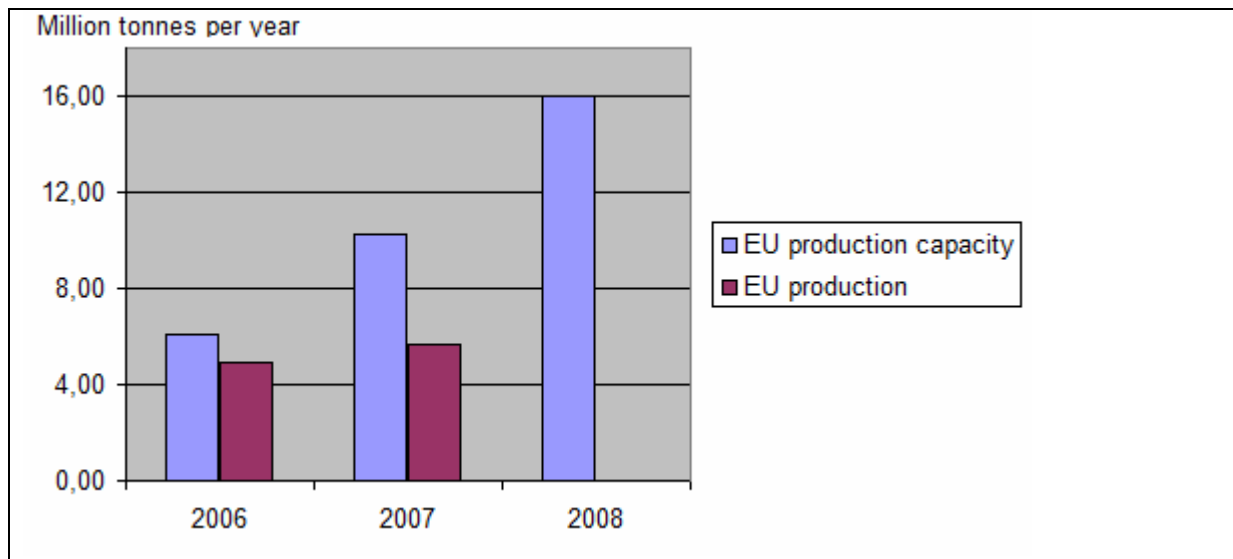


Figure VIII. EU Biodiesel production capacity and Biodiesel production¹⁰

However, in light of the latest negotiations on a new Renewable Energy Sources Directive, the new revised 4% target for biofuels causes that an important part of this capacity remains idle or is being dismantled.

Against this background, the increasing diesel deficit and trade imbalance with Russia and the Former Soviet Union, and the unused biodiesel capacity already in place, **EBB finds it odd that this existing production capacity is not considered to be used in order to reduce the EU diesel deficit** while considering this as being an available rational solution.

*The European Biodiesel Board, also known as **EBB**, is a non-profit organisation established in January 1997. EBB represents the voice of the EU biodiesel industry. It gathers 66 companies and associations and aims to promote the use of biodiesel in the European Union. EBB member companies account for around 80% of EU biodiesel production.*

⁹ The target was indicated in the Directive 2003/30 on the promotion of the use of biofuels or other renewable fuels for transport, May 8th 2003

¹⁰ EU Biodiesel Production figures for 2008: not available at the moment of drafting