



Renewable Transport Fuel Obligation (RTFO) - A Greenergy perspective

The UK Government's Renewable Transport Fuel Obligation (RTFO), introduced in April 2008, obliges fuel suppliers to include a percentage of biofuel in their fuel mix or pay a penalty. This Perspective explains the workings of the RTFO and sets out Greenergy's views on its structure and content. It is one of a series of Greenergy Perspectives on a variety of issues around biofuels.

Summary

Biofuels have an important role to play today as one of a number of initiatives to help cut transport related greenhouse gas emissions. Government policy measures that encourage the use of biofuels are therefore to be welcomed, as long as the biofuels offer a genuine carbon benefit and are derived from sustainable sources.

- The stated objective of the RTFO is to deliver carbon savings.
- Greenergy welcomes the Government's announcement that it aims to reward biofuels under the RTFO in accordance with the carbon savings that they offer from April 2010, and to reward biofuels under the RTFO only if the feedstocks from which they are produced meet appropriate sustainability standards from April 2011¹.
- The assessment of carbon savings needs to be based on a review of scientific evidence and not on a methodology or selected data that has been influenced by political considerations. It should be technology neutral.
- The introduction of credible and practical minimum sustainability reporting standards is essential. They should be introduced at EU level to ensure consistency.
- The EU Renewable Energy Directive (RED), January 2008, proposes a binding minimum target of 10% for biofuels in transport for each Member State by 2020. The RTFO needs to ensure it is not left behind by developments in the market.

¹ Moving towards a carbon-linked RTFO and removing support for unsustainable biofuels: DfT, September 2007.

1 RTFO overview

The RTFO requires obligated companies to supply road transport fuel which includes increasing proportions of biofuels, or to pay the “buy-out” penalty, which has been set at 15 pence per litre of biofuel not supplied for the first 2 years and 30 pence per litre in the third year.

The first phase of the RTFO started on 15th April 2008 and lasts for three years. The biofuel obligation increases from 2.5% in 2008-09 to 3.75% in 2009-10 and 5% in 2010-11. A second phase will follow from 2011, at which point inclusion rates will be reviewed. This second phase will be determined by policy agreed at the EU level under the proposed Renewable Energy Directive (RED).

From April 2010 the RTFO will reward biofuels in accordance with the carbon savings that they offer and from April 2011 will only reward biofuels if the feedstocks from which they are produced meet appropriate sustainability standards².

The current duty incentive of 20 pence per litre for biofuels for road use will cease from 2010 and duty on biofuels will thereafter be charged at the same rate as petroleum road fuels. From 2010 – 11 the RTFO will provide the total incentive for biofuels, incentivising only the most carbon efficient and sustainable biofuels.

Reporting under the RTFO

A new body, the Renewable Fuels Agency has been established by the Government to administer the scheme and is now operational <http://www.dft.gov.uk/rfa/>

All oil companies are now required to report to the RFA on the biofuels they supply giving information of the carbon savings achieved and on the extent to which they meet sustainability standards.

² Moving towards a carbon-linked RTFO and removing support for unsustainable biofuels: DfT, September 2007.

2 The RTFO and Carbon

Perspective

The only credible way to ensure that the RTFO will be successful in meeting its stated objective of delivering carbon savings is for the scheme to credit biofuels according to their carbon saving. By switching from a scheme based on biofuel volumes to one based on carbon reductions at the earliest opportunity, Government will be giving an unequivocal statement that the RTFO scheme is intended to drive improved carbon savings. It will also provide the necessary incentive to producers and suppliers alike to deliver biofuels with the lowest carbon footprint.

In the first two years of the RTFO, carbon savings are reported monthly and annually, in an aggregated form, to the RFA who will then compile and publish a report on the performance of individual companies. This report will state percentage greenhouse gas savings achieved by the biofuels supplied and enable comparisons between companies to be made. The level of carbon savings that the Government expects suppliers to achieve are set out in the targets table:

	2008-09	2009-10	2010-11
Annual GHG saving of fuel supplied	40%	45%	50%

The Government has now announced it intends to move to carbon saving from April 2010 and will consult on the basis on which this will be implemented. Two options are being considered:

1. A linear or banded scale of reward in which the better the carbon saving the greater the level of reward; or
2. A minimum threshold above which all biofuels would be equally rewarded.

It would clearly be possible to have both a minimum threshold and then additional incentives on a linear or banded basis for improvements above this base level.

Perspective

Greenergy believes that biofuels with higher carbon savings should benefit under the scheme to a greater extent than those with lower carbon savings. A linear scale is preferable because this will most fairly reward biofuels according to their carbon content. The assessment of carbon savings within the RTFO needs to be based on a review of scientific evidence and not on a methodology or selected data that has been influenced by political considerations. It should be technology neutral.

3 The RTFO and Sustainability

Perspective

The RTFO should include credible, practical minimum sustainability reporting standards. They should be introduced at EU level to ensure consistency.

Minimum sustainability standards should extend beyond the use of biofuels in transport to include food, which is the bigger consumer of many of the feedstocks, biomass and other forms of energy production. This will also require action by producer and consumer country governments and authorities to address those impacts which are beyond the scope of individual companies.

Sustainability data is reported monthly to the RFA who will publish reports on the performance of individual obligated companies. Companies are also required to report aggregated data by biofuel (biodiesel, bioethanol, etc) and by feedstock, including information on the proportion of the biofuels that meet relevant sustainability standards. From April 2011 the Government intends to reward biofuels under the RTFO only if the feedstocks meet appropriate sustainability standards.

As for carbon, the Government has set two targets for sustainability reporting:

	2008-09	2009-10	2010-11
% of feedstock meeting a Qualifying Environmental Standard	30%	50%	80%
Data reporting of renewable fuel characteristics	50%	70%	90%

¹ Report to the Dutch Government: Testing Framework for Sustainable Biomass: Final report from the project Group "Sustainable production of biomass", February 2007: page IV and page 33, recommendation 3.

There needs to be a clear distinction between those effects which are the responsibility either of individual companies or the supply chains of individual sectors (e.g. biofuels) and those which are the responsibility of national Governments.



For those impacts which are at the company level, minimum environmental and social standards should be introduced as soon as is practical in order to give customers added confidence in the sustainability of the products supplied to them.

However, in order for this confidence in sustainability to be established, it is also a requirement that national governments and authorities explicitly take responsibility for those macro³ effects which are clearly beyond the scope of individual companies and sectors.

Failure on the part of government to do this will fatally compromise the ability of industry to deliver. The displacement of 'poor' quality production from one sector to another would not be an acceptable consequence of this failure for which governments will be held to account.

³ Report to the Dutch Government: Testing Framework for Sustainable Biomass: Final report from the project Group "Sustainable production of biomass", February 2007: page IV and page 33, recommendation 3.

4 The RTFO target inclusion levels - why a maximum of 5% biofuel in 2010-11?

Perspective

The RTFO sets a biofuel inclusion rate of 2.5% in 2008, rising to 5% in 2010. With work also underway at EU level to revise the fuel specifications to allow retail use of biofuel blends containing as much as 10% biofuel, there is a danger that the RTFO could be left behind by developments in the market. For some suppliers, it could in practice act as a brake on further biofuel usage rather than an incentive. In such a case, the RTFO would set an effective cap on biofuel usage by creating a financial disincentive to include biofuels over these levels.

EU fuel specifications currently permit a maximum 5% inclusion of biodiesel in mineral diesel and 5% bioethanol in mineral petrol. Blends of more than 5% biofuel are only suitable for certain makes or models of vehicle and are therefore not widely sold as a retail grade (through petrol stations). However, higher percentage blends are becoming increasingly common for fleet use, where the fleet operator can make individual arrangements with the engine/vehicle manufacturer, and significant quantities of biofuel blends, as high as 50% for biodiesel, are already in use.

Moreover, the EU Renewable Energy Directive (RED), January 2008, proposes a binding minimum target of 10% for biofuels in transport for each Member State by 2020⁴. The RED proposes three key sustainability criteria:

- Land with high carbon stocks should not be converted for biofuels production;
- Land with high biodiversity should not be converted for biofuels production; and
- Biofuels should achieve a minimum level of greenhouse gas savings.

There is concern that cultivation of some habitats can lead to higher greenhouse gas emissions. To address this, the RED proposes limiting the use of default (carbon) values for cultivation and only apply this to regions where such an effect can reliably be ruled out.

⁴ Directive of the European Parliament and of the Council on the promotion of the use of energy from renewable sources: January 2008.