
REFORM FOR A GROWING BIO-BASED INDUSTRY IN EUROPE

- SEMINAR HELD IN THE EUROPEAN PARLIAMENT
ON 4TH JUNE 2013



BIO-ECONOMY

– AND CREATING SUSTAINABLE GROWTH

On the 4th June 2013, MEP Kent Johansson invited politicians and industry representatives to the European Parliament to discuss the conditions for the bio-based industry in Europe in general, and the bio-based chemical industry in particular.

Johansson introduced the seminar by stating that sustainable growth was high on the agenda, but not easy to achieve since it involves broad change in the way we organise society. The transition to a more sustainable way of life would not happen automatically. For this reason, he had decided to host the seminar to raise the issue of the bio-based industry in Europe, and give the opportunity to different stakeholders to voice their concerns and exchange views on policy developments in the area.



*“What we do know, is that the market is ready.
But we can only commit to a shift if we can secure supply”*

Erika Mink, Director Environment Affairs at Tetra Pak International, started with a broad perspective on the bio-economy, which she said can lead to the next industrial revolution if we do it right. She saw the bio-economy as a vision shared across sectors and societies. A vision in which sustainably grown, renewable and recyclable materials efficiently used lead to inclusive sustainable growth, high value products and services, a reduction of environmental impacts, and a circular economy.

For Tetra Pak, a commitment to renewable resources has all along been in alignment with the business objectives of the company. Today, the biggest source of material the company uses is paperboard made from wood grown in responsibly managed forests, but about 25% of the material used for the packaging produced is non-paper, mainly polyethylene. Tetra Pak’s ambition is to offer a package made from 100% renewable raw materials by 2020, but the challenge is quite substantial. This involves replacing petroleum-based polymers with bio-based polymers, or essentially, replacing petroleum with sugar cane.

The company has already started this process by offering packaging with closures made from bio-based polymers sourced in Brazil. But before making a firm commitment to a transition, two things are needed: a secure supply, and ways to make sure the supply is sustainable. Tetra Pak has joined forces with other big multinationals and supports the development of sustainability criteria for the use of biomass feedstock for packaging, and to make sure its industrial use does not replace food use. But to make sure supply is secure, the industry needs policy measures on a political level, allowing supply into Europe, and developing supply in Europe. Such policy measures would make Tetra Pak, as a company, much more comfortable in their commitment.

One thing that was not in question was market demand. The company saw great interest from consumers and its customers, particularly global brands, to shift to renewable packaging materials, and Mink concluded by saying that the “the market is ready, it is now up to us to make it happen”.

SUSTAINABLE SOLUTIONS – THROUGH INNOVATIVE CHEMICALS



“We are not looking for subsidies or special treatment, but we want a level playing field with our competitors”

Urban Svensson, Director of Global Procurement at Perstorp AB, talked about the current state of bio-based production in the chemical industry, and what the industry would need to develop.

He emphasised the need to not only talk about visions and the future, but to stop and see that the bio-based industry is here now. Perstorp has already launched a number of products based on renewable raw materials. Still, over 95% of chemicals and plastics produced today are fossil-based, whereas about 75% of Perstorp’s products could be made from bio-based raw materials.

Svensson talked specifically about bio-ethanol, as the main vehicle for bio-industrial development. The reason is that it is already available in large scale, has well-proven production technologies, can be created from almost any source of biomass, and it can replace fossil-based ethylene – the largest building block in chemical production.

Today however, imports of bio-ethanol were subject to high import duties (for example 246 EUR/ton for imports from Brazil, the world’s largest producer), whereas fossil-based ethylene could be imported duty free. Looking forward, he envisaged that products

based on European raw materials, such as forests, would be developed in the next 5-10 years. However, until then, bio-ethanol would be the vehicle to make sure production facilities were in place and markets developed. Perstorp saw great demand from customers for “green” products, but were at the moment unable to charge a premium for those products to cover the costs caused by the import duties.

Svensson also described the current system for Processing under Customs Control, and the consequences on a company level of “living on exceptions and short-term solutions”, specifically with regards to investments in new facilities.

He emphasised that the industry was not asking for subsidies. It just wanted to have a level playing field with competitors outside the EU, and to have the same conditions for import of bio-based raw materials as for fossil-based ones. Stressing once again the urgency of the issue, Svensson concluded that “the bio-economy is not science-fiction”, and that a decision needed to be taken now. If not, little of European bio-based industry would remain in 10 years, and the European producers of renewable raw materials would have no market for their supply.

BIO-BASED CHEMICALS – ACCESS TO RENEWABLE RAW MATERIALS



“The European chemical industry wants to make bio-based products, but without access to raw materials, it will remain fossil-based”

José Mosquera, Director Industrial Policy at CEFIC (the European Chemical Industry Council), gave an industry-wide view of the policy changes needed for the development of bio-based.

Out of the three dimensions of the EU Bioeconomy strategy, he saw that innovation was well taken care of in the context of Horizon 2020, and that market development was fuelled by EU industrial policy, standards setting and so on. However, more attention was needed for the third pillar of the bioeconomy strategy: access to biomass.

Since biomass is used also for food, energy and fuel, the chemical industry operates in a complex policy environment when wanting to produce bio-based products, being affected by policies such as the Common Agricultural Policy (CAP), the Renewable Energy Directive (RED) and the European industrial policy. Access to crude tall oil, a forestry product produced in the EU and ideal for chemical use, is for example limited by EU incentives to use it for fuel.

The demand from CEFIC members making products from bio-based raw materials such as sugars and starches, was to be able to operate in an open environment, just like those making products from fossil-based sources. Import

duties, in this perspective, were directly counterproductive, and the industry called for permanent duty-free import for all renewable raw materials for chemical use.

Mosquera mentioned several examples of where investors in bio-based production avoided Europe due to the import duties and insecurity of supply at world market prices. In one instance, a bio-plastics plant was being built in the US rather than Europe, due to the lower cost of raw materials. In another, producers of oleochemicals and allied products were considering moving production to Malaysia, where vegetable oils could be sourced.

As the examples showed, the European chemical industry is clearly interested in increasing its bio-based production. But in Mosquera’s view, without policy reform improving access to raw materials, it would remain fossil-based.

WHY DO WE NEED CHANGES IN TRADE POLICY IN ORDER TO CONTRIBUTE TO IMPROVED CONDITIONS FOR THE EUROPEAN BIO-BASED INDUSTRY?



“Changes in trade policy are necessary since the gap between trade policy and business reality is growing”

Maria Johem, Senior Adviser and an expert on tariffs at the **National Board of Trade** – the body supplying the Swedish government with information and analysis in trade policy matters – went on to explain why, in her view, changes in trade policy were one option for improving conditions for the bio-based industry.

She explained that the normal structure is to have low or no tariffs for raw material, and higher tariffs for finished products. However, in the case of bio-ethanol, the situation was the reverse: the tariff to import the raw material was 19.2 EUR / hl, or equivalent to a 40-60% tariff, whereas the tariff for finished chemical products was set at 0%, 5.5% or 6.5%.

With results from the Doha round of trade negotiations yet to be seen, temporary solutions to provide relief from the high tariffs existed, but with a complex administrative framework. Under Processing under Customs Control, duty is paid not on the imported raw material, but on the finished product when it enters into free circulation, including processing costs. For certain sensitive goods it is very difficult to obtain an authorisation even though the finished goods actually can be imported duty free. Authorisations are granted for a maximum period of three years.

Another alternative is tariff suspensions but if production exists within the EU of the import good, tariff suspension cannot be used, instead tariff quotas may be applicable. However, since the use of quotas is granted on a first come basis, companies do not know when they place their order if they will benefit from the tariff reduction at the time of delivery, creating great uncertainty. Free Trade Agreements were also problematic, since sensitive goods were often excluded from negotiations, and rules of origin must be fulfilled.

Johem suggested that the solution was within reach for the Commission, which could propose an amendment of tariffs on its own accord. Examples of products for which a different tariff had been set for imports destined for industrial production, such as tuna and palm oil, showed that this can be done.

Johem summed up her presentation by stating that it had become clear that tariffs on imported goods were being harmful to European producers, and that the system only protected the union producer of the basic product, at the expense of the union producers of finished goods. Changes in trade policy were necessary, since the gap between trade policy and business reality was growing.

CAN TRADE REFORMS SUPPORT THE GROWTH OF THE BIOINDUSTRY?



“There are some promising negotiations in the pipeline that will positively affect your sector, but it will take some time. So you should also continue looking at other solutions”

Zoltan Somogyi, head of unit at DG Trade, explained that the issue of raw materials access for the bio-industry involved many different services within the Commission, such as DG Entr, DG Agri, DG Energy, DG Climate, DG Taxud and DG Research. In his presentation, he focussed only on the trade negotiations with potential to improve the situation.

Following the collapse of the Doha round of WTO negotiations, where a deal including bio-ethanol as part of the market access package was almost struck in 2008, the EU had like many others turned their trade liberalisation efforts to Free Trade Agreements (FTAs).

A fine balance needed to be struck in market openings, considering the interest of many groups, and achieving a balanced approach between imported goods and union production. But as general trend, Somogyi saw that sensitivities were changing, with more and more sectors seeing FTAs as an opportunity rather than a threat.

As for the status of negotiations, an FTA with Central American countries will enter into force soon, allowing continued supply of ethanol which currently enters to the

EU market under the General System of Preferences. A coming agreement with Ukraine would also provide a market opening, and in negotiating an EPA with the South African Customs Union (SACU), ethanol market access is also on the table.

The first exchange of offers for market access in the negotiations with Mercosur would take place before the end of this year. Although it would be classed a sensitive product “no-one could imagine an FTA with Mercosur not including market access to ethanol”.

The negotiating mandate for the Trans-Atlantic Trade and Investment Partnership between the EU and USA would - if all went according to plan - be adopted on the 14th June, with both parties aiming to “finish negotiations on one tank of gas”. FTAs however were in general no quick fix. After a deal was closed, it would usually take around two years before it entered into force. So despite some promising negotiations in the pipeline, results in trade negotiations were likely to take a significant amount of time. To improve the situation in the near future, Somogyi therefore suggested politics and industry continue to look at other solutions.

THE NEED FOR STRENGTHENING THE BIO-BASED INDUSTRY: A VIEW FROM THE DUTCH PERSPECTIVE



“It is very important that the bio-based economy develops, and also that the chemical industry develops, because the farmers will in the end benefit from the additional demand”

Ton Runneboom, chairman of the Dutch Biorenewables Business Platform, although appointed by the government spoke in the seminar not of Dutch policy, but freely, based on his own experience.

He saw the bio-based economy as an essential part of getting to sustainable societies and a sustainable economy. This would be all about capturing solar energy, and biomass is one of the technologies available today to do so. To take away some of the concern about biofuels vs food, he emphasised that in a free economy, biomass would not be the primary source of power as it captures less of the sun’s energy than alternatives such as solar panels and wind. Rather, it would be part of a larger package.

Runneboom then focussed on the perspective of European farmers, since the development of a bio-based economy in Europe would bring more value to them. He was concerned that “farmers are not yet fully participating in the bio-based economy, although in the long term, they are going to be the big beneficiaries.” Many areas of the bio-based economy were flourishing under current rules and regulations, but with one big exception: the chemical industry. Under present rules,

it had no chance, as it had to compete both geographically, e.g. with Brazil, since downstream products come into Europe duty free, and with fossil-based products that are also duty free. The global character of the chemical industry also meant it had equal choices to invest outside Europe, and there were examples of industries emerging in e.g. Switzerland and Turkey, where access to raw materials was better.

To remedy the situation, it was clear to Runneboom that we needed to make an exception for the chemical industry. He repeated that the mechanism to do this is there, referring to Maria Johem’s earlier presentation, and saw nothing more logical than trying to get import duty exceptions for chemical applications of these raw materials. Only then could the industry flourish, and be ready by the time the farmers were ready. He concluded by emphasising that action was needed now, because “if we start doing it five or seven years from now, developments will have taken place outside Europe and it will be much more difficult to bring it back in. Not overcoming the duties today means that down the line, the farmers are not going to benefit because the demand is not going to be there.”



REFORM FOR A GROWING BIO-BASED INDUSTRY IN EUROPE – PANEL DISCUSSION



Following the main presentations, a number of other speakers were given the floor in a panel discussion.

Lars Josefsson, Cluster Leader of the Swedish West Coast Chemical Cluster, talked about the initiative “Sustainable Chemistry 2030”, and the cooperation with VINNOVA (Sweden’s Innovation Agency) to develop the technology to make bio-ethylene from forestry products. He emphasised that about 10 years would probably be needed before this process was commercially viable, and therefore, bio-ethanol was essential in the short term to make sure the industry did not lag behind. The same processes, structures and people now involved in making chemicals from bio-ethanol could then gradually replace this with forestry-based raw material.

Jens Hamprecht, Head of Global Product Management for Biodegradable Polymers, BASF, spoke of three things needed for the bioeconomy to grow. With regards to sourcing, 16% of bio-plastics today are produced in Europe. This is expected to shrink to 5% in 2016, based on projected investments. The main concern causing Europe’s shrinking share of the world market was access to feedstock, so this was the first thing the industry needed.

The second area had to do with applications, such as policies restricting the use of shopping bags, and the third concerned the recovery of products produced in the bio-economy. Compostable plastic bags for example facilitate organic waste collection, which is one pre-condition of a bio-based circular economy.

Anders Fredriksson, CEO, SEKAB considered his company one of the most sustainable in the sector, saying that “we are in one sense, walking the bio-economy talk”. For this reason he believed to have a clear picture of the conditions for producing bio-based chemicals, and he brought out two main points. First, the duty the company pays on the bio-ethanol it buys from Brazil is 40 EUR per ton, whereas their competitors outside the EU, producing exactly the same product using the same bio-ethanol, pay 0% duty when exporting to the EU. This is equal to an extra cost for the company of 5-7% on the bottom line, which may not sound like much, but in a competitive industry is the difference between make or break. Second, to be eligible for the 40 EUR per ton duty,

the company needed to apply for a 3 year PCC permit, otherwise the cost would triple. Being able to plan only a few years ahead meant it was impossible to get the board to approve investment decisions.

MEP Reinhard Bütikofer (Greens/EFA), moved the discussion to the political aspects of the issue, claiming that this was a second chance for the bio-based industry, after that of biofuels. In his view, the issue of sustainability should not have been narrowly defined, and issues such as ILUC had been taken too lightly. This impacted the industry negatively, and impacted the approach of using bio-based materials for sustainability.

Although declaring himself sympathetic with the situation of the chemical industry, Bütikofer warned of credibility issues. He said the industry could not expect the public and policy makers to believe they wanted to go bio-based if they did not adopt a broader sustainability perspective.

He asked why tariffs on the import of bio-ethanol should be cut, if nothing was done about the subsidies on fossils? And why should tax payers, who already subsidise the use of fossil fuels for chemicals, also pay for subsidies for the use of bio-based materials?

Ton Runneboom replied to Bütikofer by saying that the industry was not asking for subsidies, but for the removal of a barrier.

Kent Johansson concluded the discussion by saying that this issue was affecting a lot of current policy discussions in the parliament, for example in terms of trade and industrial policy. He added that it was important for him and his colleagues, as policy makers, to have a common view across political groups. To achieve this, he asked the industry to make sure they presented a long-term solution, taking into account the different policy areas.