

SUBJECT: Public Consultation on biofuel issues in the new legislation on the promotion of renewable energy.

EC, DG-TREN

Position of Galp Energia

15 June 2007

3. How should the use of second-generation biofuels be encouraged?

Question 3.1: How should second-generation biofuels be defined?

The definition of second-generation biofuels based on the type of raw materials or on the type of technology used to produce the biofuel introduce a limitation on the biofuels feedstock and technology not promoting the diversification of the sources and new technologies that must be related with the capacity to reduce the GHG emissions at a competitive cost and for a large type of biomass.

Galp Energia proposes that the definition of second-generation biofuels be based on:

1. Improvements in energy efficiency, when compared to 1st generation biofuels,
2. reduction of the well-to-wheel GHG emissions when compared to fossil fuels,
3. superior ability to be blended into conventional fuels, when compared to 1st generation biofuels,
4. better suitability to be used by the existing distribution logistics and vehicle fleet.

According to these criteria we consider second-generation biofuels those derived from chemical modification of biomass (vegetable oils, animal fats, lignocellulosic waste, etc.) by means other than the transesterification of vegetable oils (associated with FAME/FAEE production) or direct fermentation of sugars and starch.

As examples of second generation we consider hydrogenation of vegetable oils and animal fats and BTL.

Question 3.2: Please give your comments on the "possible way forward" described above. If you think the problem should be tackled in a different way, please say how.

Admitting a scheme of incentives to promote and accelerate introduction of biofuels in the European market, Galp Energia is of the opinion that second-

generation biofuels ought to have a higher promotion than first-generation ones, due to the fact that they:

1. use a wider range of feedstocks and may allow recycling/reuse of materials currently undesired or undervalued (e.g. animal fats),
2. are better accommodated by existing equipment (logistic and engines),
3. do not create obstacles to distribution (winter conditions, stability, etc.),
4. assure better and easier compliance with EU fuel standards and EU targets,
5. generally use expensive cutting-edge technology, in some cases still in development or I&D phase.

On the basis of the above and subject to Community state aid rules and applicable Community tax legislation, Member States legislations shall foresee specific incentives schemes, such as higher R&D or consumers subsidies related to second-generation biofuels. Likewise, in order to correctly and fully develop a starting market, specific interventions in as far as raw materials are concerned might also be envisaged.

As far as a possible "over-evaluation" of the second-generation biofuels under national biofuel obligations (for example, double), Galp Energia respectfully remarks that although this solution may facilitate the task of Member States to meet the foreseen global thresholds, this would also mean, de facto, a lower impact on the global challenges for a green Europe, thus contradicting the ratio of the energy communication.

Question 3.3 Should second-generation biofuels only be able to benefit from these advantages if they also achieve a defined level of greenhouse gas savings?

Galp Energia does not agree with the discrimination of biofuels on the basis of their GHG emission reduction only.

Second-generation biofuels should not be restricted from incentives schemes based only on a defined level of GHG savings, because these fuels could present several other advantages as mentioned above.

4. What further action is needed to make it possible to achieve a 10% biofuel share?

Question 4.1:

Should the legislation include measures to ensure that diesel containing 10% biodiesel (by volume) can be placed on the market, and is in fact placed on the market?

We believe that the legislation should include measures to ensure that diesel containing 10% volume basis of biodiesel (consisting of any blend of 1st and 2nd generation biocomponents) can be placed on the market.

When it comes to enforce a specific level for biodiesel content on the market, we recommend to let the market evolve naturally and not mandate specific levels of component usage for which not all stakeholders may be ready at a given moment. This being said, measures to support R&D and raw materials availability shall also be taken into account to facilitate the natural industrial evolution.

Question 4.2:

Should the legislation include measures to encourage the use of ethanol and biodiesel in high blends? If so, what?

Galp Energia is of the opinion that, for the time being, pressure to introduce high blends in the market is still undesirable due to:

1. the unpreparedness of the supply sources,
2. the long lead time for required agricultural projects to develop and mature
3. the undesirable consequences that such pressure could bring to fragile non-EU economies trying to meet European demand at all costs.

Should the EU nevertheless decide to invite Member States to foresee a high blends policy strategy, these measures shall be accompanied by substantial efforts to allow the EU industrial sector, in its broad meaning (e.g. vehicles manufacturers, fuels producers, distributors, ...) to further increase their R&D strategies in a way to meet the pre-identified criteria.