

**Third report to the European Commission for the year 2005 under Article
4(1) of Directive 2003/30/EC of the European Parliament and the Council
on the promotion of the use of biofuels or other renewable fuels for
transport**

**Prepared by the Energy Service of the Ministry of Commerce, Industry
and Tourism of the Republic of Cyprus**

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Introduction

This report was prepared by the Energy Service of the Ministry of Commerce, Industry and Tourism of the Republic of Cyprus as required by Article 4 (1) of Directive 2003/30/EC of the European Parliament and the Council on the promotion of the use of biofuels or other renewable fuels for transport.

The report covers:

The measures taken to promote the use of biofuels or other renewable fuels to replace diesel or petrol for transport purposes

The national resources allocated to the production of biomass for energy uses other than transport

The total sales of transport fuels and the share of biofuels

1. The measures taken to promote the use of biofuels or other renewable fuels to replace diesel or petrol for transport purposes

1.1 Legislative measures

- A specific Law on the promotion of the use of biofuels or other renewable fuels for transport purposes (N.66/(I)2005) has been in force since 24.6.2005. The Law adopted the provisions of Directive 2003/30/EC and set the framework for the promotion of biofuels or other renewable fuels in Cyprus. Specifically, the Law empowers the Minister of Commerce, Industry and Tourism to launch, in cooperation with the Minister of Finance, multiannual programmes in which tax exemptions and/or reductions are applied to biofuels in accordance with Article 16 of directive 2003/96 EC of 27 October 2003, restructuring the Community framework for the taxation of energy products and electricity.

The Energy Service of the Ministry of Commerce, Industry and Tourism prepared a bill to amend the above Law in order to apply tax exemptions to biofuels marketed in Cyprus. The bill has been vetted by the Attorney General and has been submitted to the Council of Ministers with the note that the opinion of the Directorate General for Competition on the proposed tax exemptions is pending. It is anticipated that the amending law will be in force by next October (2006).

- A Ministerial Order (KDP.318/2004) issued under the Law on the specifications of oil products and fuels (N.148(I)2003) adopted standards EN 229 and EN 590, including the provisions for using biofuels blended with petrol and diesel. Furthermore, the Ministerial

Order allows the use of conventional fuels with higher concentration (>5%) of biofuels and biofuels in pure form provided that standard EN 14214 is applied and emission requirements are met.

- The provisions of Article 16 of Directive 2003/96/EC regarding tax relief applied to biofuels were transposed by the Law on taxes (N.91(I)/2004). According to this Law the Council of Ministers may apply tax exemptions or reductions to biofuels or to other renewable fuels under a multiannual programme as per Article 16 (5) of the Directive.
- Law N. 33(I)/2003 on energy conservation and the promotion of RES was introduced in 2003 in order to meet the objectives of Directive 2001/77/EC on the promotion of electricity produced from RES in the internal electricity market. Under the Law, a green levy of 0,13 CYP-cent/kWh (0,22 Euro-cent/kWh) is charged on all electricity consumption. The proceeds of the levy go into a special fund for financing programmes for the promotion of renewable energy sources and energy conservation. Article 6 of the Law states that investments in the utilization of biomass for energy production are eligible for financing.

1.2 Multiannual programme for the promotion of biofuels

- The preparation of a programme aiming to fulfill the national indicative target for replacing 1% of conventional fuels with biofuels was initiated by the Minister of Commerce, Industry and Tourism at a discussion forum held on 31 May 2005 in Nicosia. The Minister Mr. Yorgos Lillikas, asked the participants to cooperate with the Energy Service of the Ministry of Commerce, Industry and Tourism to prepare a robust multiannual programme for the introduction of biofuels into the country's energy balance.

Following the Ministerial order, a programme on biofuels has been shaped based on the conclusions of the consultation that the Energy Service had with the stakeholders. The main elements of the programme are:

- Tax exemptions in favour of biofuels,
- Financial support, and
- measures to promote the production and use of biofuels.

1.2.1 Tax exemptions

- Within the framework of an action plan aiming to mitigate the effect of the high oil prices, the Minister of Finance and the Minister of Commerce, Industry and Tourism have decided tax exemptions to be applied to biofuels used for transport purposes over the period 2006 to 2010. Total tax exemptions on biofuels are justified in

Cyprus, since petrol and diesel are taxed with the minimum levels of taxation.

The cost of tax exemptions on biofuels is estimated to be 1,25 million CYP (2,15 million Euro) a year over the years 2006 to 2010.

1.2.2 Financial support

- A grant scheme for energy conservation and the utilization of renewable energy sources is been operated by the Energy Service under Law N.33(I)/2003 since February 2004. The scheme covers a large spectrum of investments in energy conservation, co-generation and utilization of RES, including the production of biofuels. Under the grant scheme there is a specific provision for funding investments for the production of biofuels for transport. The grant provided under the scheme is 40% where the maximum eligible grant is 400.000 CYP (680.000 Euro). Since February 2004, when the grant scheme was initiated, investors expressed their sole interest in investments in the production of biofuels for transport, and particularly for the production of biofuels from imported oilseeds and used edible oils.

Four applications have been submitted for subsidizing biodiesel plants of a total capacity 6,400 MToe a year. The total annual production of those plants will meet the target for replacing 1% of motor fuels with biofuels. According to the applicants, the production of biofuels will be based almost solely on imported oilseeds. However, some small quantities of biodiesel will be produced from used edible oils.

1.2.3 Measures to stimulate and promote the use of biofuels

- The Government is considering using biofuels for the needs of its captive fleet. The measure is aiming to stimulate biofuel market in Cyprus since the Government purchases fuels from the distribution chain of the local oil marketing companies. According to the current two-year contract for supplying the governmental sector with fuels, the fuel supplier has the contractual obligation to handle any volumes of biofuels provided by the Government. The Supplier is mandated to store the biofuels, to blend them with conventional fuels and to deliver them to the Government's installations.
- A Tax relief accounts for 700 CYP (1200 Euro) towards the cost of purchasing a new flexible fuel vehicles, including electric and hybrid vehicles. The measure is aiming to encourage the owners of captive fleets to use biofuels, especially those who can produce biofuels from their own resources (used edible oils) such as restaurants, hotels and etc.
- Measures to promote indigenous production of biofuels are being undertaken by means of research programmes. Specifically, a grant aid of 136.000 CYP (236.000 Euro) has been provided by the Research

Promotion Foundation of Cyprus for the preparation of a study on the evaluation of energy crop potentials in Cyprus. The ongoing project is aiming at investigating the feasibility of some crop-species as energy plants on the basis of experimental cultivations. Within the framework of the project, bio-ethanol and biodiesel will be produced in order to evaluate their quality and their energy content. The project is being contacted by the Cyprus Institute of Energy, the Agriculture Research Institute and the National Technical University of Athens. The project was launched in 2004 and the final results will be announced in the year 2007.

2. The national resources allocated to the production of biomass for energy uses other than transport

For the promotion of biomass for heating/cooling and electricity production , Cyprus has introduced since 2004 support measures. These measures include:

- Operation of a Support Scheme for the promotion of RES and Energy conservation, which includes the provision of grants on the initial investment for heating/cooling, tele-heating/ tele-cooling and the Co-generation from biomass. The grant amounts to 40% of the eligible costs for companies (with maximum 680,000 euros) and 55 % for others (non legal entities) with maximum grant 19,000 euros for households and not profitable organizations for space heating. Moreover grant is provided for investments on district heating with maximum amount 117,000 euros.
- After the evaluation of the support mechanisms for biomass proved to be not very effective and therefore Cyprus currently is introducing a new support scheme for electricity production from biomass. The scheme was submitted to DG Competition and we are expecting the approval. The new support scheme for electricity production from biomass is more generous and provides operating aid (Feed-in purchase price per KWh) up to 12.75 euro cents per KWh depending upon the technology used and raw biomass.

3. The total sales of transport fuels and the share of biofuels

- The consumption of conventional fuels for transport in 2005 was 650 ktoe. Small quantities of biodiesel from used edible oils were produced and used on private initiatives. An oil marketing company blends small quantities of bio-additives (25,000 ltr) with fuels marketed for transport.