

Second report to the European Commission

under **Article 4 (1) of Directive 2003/30/ES** of the European Parliament and the Council of 8 May 2003 on the promotion of the use of biofuels or other renewable fuels in transport.

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Bratislava, 20th February 2006

Introduction

This report was prepared by the Ministry of Economy of the Slovak Republic as required by Article 4 (1) of Directive 2003/30/EC of the European Parliament and the Council of 8 May 2003 on the promotion of the use of biofuels or other renewable fuels in 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.

On 21 December 2005, the Government of the Slovak Republic discussed and approved the “**National Programme of Biofuels Development**” and adopted Resolution No. 1022. The Government’s resolution defined the tasks to **ensure the full transposition of Directive 2003/30/EC** to the laws of the Slovak Republic and thereby also the implementation of the National Programme of Biofuels Development (“biofuels programme”).

Further legislation shall be approved in 2006:

- „Regulation of the Government of the Slovak Republic concerning minimum amount of biofuels or other fuels from renewable sources in the range of petrol and diesel fuels on the Slovak market“,
- „Amendment to Decree of the Ministry of Environment of the Slovak Republic No. .../2006 supplementing Decree of the Ministry of Environment of the Slovak Republic No. 53/2004 Coll., laying down requirements for fuel quality and the maintenance of records of fuels“.

Available bio-component production capacities in the Slovak Republic

Available bio-component production capacities in the Slovak Republic represent in total:

- ⇒ 100 980 tons of esters per year,
- ⇒ 7 600 tons of anhydrous bioethanol per year
- ⇒ 51 000 tons of ETBE per year (as from 2006).

Producers of motor fuels are able to declare technical and technological readiness to implement the biofuels programme.

Significantly higher prices of crude oil and motor fuels on the internal market of the Slovak Republic in 2005 (compared to 2004) allowed approval of the biofuels programme without business entities in the competence of the Ministry of Agriculture of the Slovak Republic requesting financial support from the state as a condition.

The following are the conclusions of the approved “National Programme of Biofuels Development”:

- target status of the programme as of 31 December 2010 is represented by referential value of 5.75 share of biofuels on the Slovak market with motor fuels calculated on the basis of energy content of the total quantity of petrol and diesel fuel;
- year-on-year growth of the consumption at the rate of 1.5 % for petrol and 3% for diesel fuel is proposed for the period of 2006 – 2010 against the expected real consumption in 2005;
- average year-on-year growth of the consumption of bio-components blended with petrol (ETBE or bioethanol) shall be 24 % and average year-on-year growth of consumption of bio-components blended with diesel fuel (fatty acid methylesters) shall be 28%;
- Slovak legislation currently in force allows the blending of a maximum of 15 volume percent of ETBE with petrol and a maximum of 5 volume percent of esters (FAME) with diesel fuel with lower excise duty.

2. National sources assigned to the production of biomass for energy use other than transport

The total energy potential of biomass for purposes other than transport represents more than 100 PJ and the highest growth in the use of biomass has been seen in heat production in the heat sector. In years to come biomass will also become a perspective source for electricity production.

Given the size of this potential, renewable energy sources (RES) are the most promising. The demand for energy biomass is currently covered in particular by the production of forest biomass.

Slovakia's total annual potential for the production of forest biomass suitable for use as a source of energy will reach around 1,810,000 tonnes by 2010, which represents some 17 PJ. After 2010, the balance of forest biomass may increase, in real terms, due to higher wood production and growing wood covers for energy use on an area of 45,400 ha.

Energy forest covers of fast-growing woods, annual and multi-annual energy crops are perspective sources of fuel biomass. The energy forests and crops may be planted on areas unsuitable for standard agricultural and forestry production, on soils temporarily excluded from agricultural production, contaminated soils suitable only for non-food production as well as on devastated areas within industrial agglomerations.

Another source of wood suitable for energy production is the wood-processing industry which produces around 1,410 thousand tonnes of waste wood a year. The total energy value of the usable waste wood produced by the wood-processing industry represents 18.1 PJ, of which two thirds come from the mechanical processing of wood and one-third from black lye. The large wood-processing companies which, however, most often use this waste for energy purposes are major producers of the waste wood.

Other perspective sources of agricultural biomass include cereal straw, cornstalks, sunflower stalks, winter rape, wood waste from orchards and vineyards.

2.1 Programmes promoting production of electricity from renewable energy sources

Projects using renewable energy sources for the production of electricity and heat are supported with financial resources provided under Aid Scheme de minimis DM-003/03, EU structural funds and the Environmental Fund.

2.1.1 Scheme to support energy savings and renewable resources utilization (Aid Scheme de minimis DM-003/03).

The support for energy savings and the use of renewable energy sources has been provided since 2003 in the form of financial assistance funded from the state budget.

Beneficiaries include SMEs, associations of natural and legal persons registered in the Slovak Republic, organisations established by the state and public administration bodies which conduct business activities, participate in economic competition and in which public sector holds a share equal to or higher than 51 %.

Eligible projects also focus on the use of renewable energy sources, including:

- construction or reconstruction of small hydropower plants with installed capacity up to 10 MW;
- construction or reconstruction of facilities for energy utilisation of biomass;
- installation of thermal pumps;
- installation of solar collectors and photovoltaic cells;
- construction or reconstruction of facilities for geothermal energy utilisation;
- installation of facilities for wind energy utilisation.

Financial aid is provided for:

- the payment of a portion of interests accrued on loans for acquisition of tangible fixed assets;
- the payment of a portion of loan for acquisition of tangible fixed assets;
- the payment of a portion of loan for acquisition of intangible fixed assets;
- subsidies for electricity/heat production from renewable energy sources.

2.1.2 EU structural funds

Projects focused on the use of renewable energy sources are included under three operational programmes:

- a) Sectoral Operational Programme Industry and Services;
- b) Operational Programme Basic Infrastructure;
- c) Sectoral Operational Programme - Agriculture and Rural Development

Sectoral Operational Programme - Industry and Services (SOP I&S) – Measure 1.4: Support for energy savings and the use of renewable energy sources.

Since this involves assistance to business entities, compliance with the rules for state aid provision is required. The following forms of assistance can be provided in this area:

- regional assistance;
- environmental assistance;
- minimum assistance.

The objective of **regional assistance** is to support regions with a low standard of living and/or a high unemployment rate; in our case it is focused on specific projects in the field of energy saving and use of renewable energy sources. Regional assistance can only be provided for projects which constitute entry investment or its part, i.e. investment into establishment of a new undertaking, expansion of an existing undertaking, launch of an activity requiring a significant modification of a product or the production process in an existing undertaking (streamlining, diversification or modernisation).

Eligible costs are the costs of procurement of tangible and intangible fixed assets directly related to the project. The assistance represents 50% of eligible costs, including a 15% bonus for SME.

The primary objective of **environmental assistance** is environmental protection, in particular the reduction of emissions of pollutants and greenhouse gases. Eligible costs are only the increased costs that the business entity must exert in order to reach the project objectives. They are further reduced by the sum representing 5-year savings in costs due to implementation of the project.

Minimum assistance is designed for small investment projects, but also for advisory services. In aggregate, the sum of assistance must not exceed EUR 100,000 over a period of three consecutive years. Maximum assistance intensity is 65% of the eligible costs. Eligible costs are the procurement costs of tangible fixed assets, intangible fixed assets as well as the procurement costs of external advisory services.

The overall sum of SKK 886 mil., including co-financing from the state budget, was approved for the programming period 2004-2006 for *Measure 1.4. Support for energy saving and use of renewable energy sources*. Support was given to 24 projects on the use of renewable energy sources of the total number of 27. A total sum of SKK 780 mil. was earmarked for these projects (88% of resources).

Operational programme: Basic Infrastructure

The specific objective of the Environmental Infrastructure priority, based on strategy approximation in the field of environment, is focused on the completion of environmental infrastructure, designed to guarantee the health of citizens and the preservation, protection and restoration of the natural environment in Slovakia, and performed through application of four measures, of which Measure 2.2 - "Improvement and development of air-protection infrastructure", is directly aimed at the use of RES.

Activities performed under this measure focus especially on the reduction of emissions from basic polluting substances (SO₂, NO_x, CO, C_xH_y, solid pollutants), fulfilment of obligations arising from the Kyoto protocol in the field of the reduction of greenhouse gas emissions, utilisation of environmentally-friendly fuels and energy sources, and support for more intense utilisation of RES and rational utilisation of non-RES.

The final recipients of assistance are in this case the self-governing regions, local self-governing bodies, state administration and business entities, although it is the citizens of the affected areas/the citizens of the Slovak Republic and the Community, who are the target group. The provision of assistance to business entities is governed by similar rules as Measure 1.4 SOP I&S.

Sectoral Operational Programme: Agriculture and Rural Development

Projects focused on the use of RES can be submitted as a part of the first priority. The main objective of Measure 1.1 - "Investment in agricultural enterprises", is to increase labour productivity and competitiveness while protecting the environment.

Specific targets also include the support for the use of environmentally-friendly technology and equipment. Eligible recipients are natural and legal persons conducting business in the primary agricultural industry.

The main objective of Measure 1.2 - "Improvement of processing and marketing of agricultural products", is the increase of competitiveness and quality of the processed food products, including ecological products, while at the same time mitigating negative environmental impacts. Specific targets also focus on the mitigation of negative environmental impacts.

Eligible recipients are natural and legal persons conducting business in the field of product-processing and primary agricultural production.

The following table illustrates the percentage of bio-components (converted to energy content) for blending with motor fuels by the purpose of use (ETBE, or bioethanol with petrol; MERO/FAME with diesel fuel) in target year 2010:

Year	Petrol (ktoe)	Diesel fuel (ktoe)	Fuels in total (ktoe)	National indicative goal (%)	Bio-components by use (%)		
					bioethanol	ETBE	MERO (FAME)
2010	758	1 187	1 945	5.75	3.73	2.59	4.32

Notes:

1. Total yearly quantity of motor fuels for blending of bio-components has decreased by more than 4 % in the case of petrol and by less than 6 % in the case of diesel fuel.
These are quantities (regular replacement of emergency stock and other state emergency reserves of motor fuels), with which no bio-components will be blended.
2. Year-on-year growth of 1.5 % consumption for petrol and 3 % for diesel fuel is planned for 2006 – 2010 period.
3. In the given figures, bioethanol or ETBE represent an alternative use of bio-components (depending in particular on their availability) for blending with petrol;
4. Due to the fact that bio-component producers focus on export of their production (producers of esters), in 2005 no domestically produced required “framework” quantities of bio-components were available in the Slovak Republic (no investment activities in the domestic production of bioethanol have been implemented; ETBE production shall begin only in 2006), needed to fulfil the indicative goal defined by Directive 2003/30/EC for 2005.

Conclusion

Differentiation of goals for 2005 in comparison with referential values detailed in Directive 2003/30/EC is based in particular on:

- a) objective factors such as limited national potential of production of biofuels from biomass; given the development in the past no sufficient quantities of biogenous substances were available for their use on the Slovak internal market with motor fuels;
- b) the volume of sources allocated for the production of biomass for energy use other than transport and specific technical or climatic characteristics of the national market for fuels used in transport;

SKK 886 million from structural funds were approved for projects using renewable sources of energy including co-funding from the Slovak state budget;

of which SKK 400 million were allocated for projects using biomass.

24 out of 27 submitted projects aimed at the use of renewable energy sources received the support; 13 of the supported projects were biomass use projects.

The Ministry of Economy of the Slovak Republic (MoE SR) and the Ministry of Agriculture (MoA SR) submitted to the Government of the Slovak Republic for approval the "National Programme of Biofuel Development", which is based on the characteristics of the current situation and the possibilities of future development within the chain of the following entities: cultivator/farmer - processor - bio-component and fuel producer - distributor - consumer. The business entities involved in the implementation of this programme within that chain are in the competency of the MoA SR (plant and animal production, distilling and fat industry) and the MoE SR (production of ETBE from bioethanol, as well as production of motor fuels from crude oil processing, warehousing, distribution and sale of motor fuels).

Originally, the material was prepared also in an alternative with financial support from the state to bio-component producers. Due to significantly higher prices of oil and motor fuels on the Slovak internal market in 2005 (compared to 2004) and in accordance with the conclusions agreed by the Ministry of Economy and the Ministry of Agriculture, the Government of the Slovak Republic approved the National Programme of Biofuels Development, which does not count with financial support from the state and the impacts of its implementation from 2006 will be reflected in the price of the final motor fuel.

Conditions were created for the application of tax relief (lower excise duty rate) for biofuels in the amount of tax payable for the volume of fuels in the product to be subject to tax relief.

A legal regulation is currently in the process of legislative approval, under which all entities placing petrol and diesel fuel into free circulation in the Slovak Republic will be obliged to introduce minimum quantities of biofuels in the range of motor fuels as the so called "binding offer" in order for the biofuels to succeed on the market.

Changes to the current conditions on the Slovak motor fuel market do not rule out the application of possible forms of support in accordance with the state aid rules compliant with the EU rules ("over compensation"), i.e. as a difference of costs/current prices in order for biofuels to succeed on the Slovak internal market with fossil motor fuels.