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The Permanent Representative

Permanent Representation of the Republic of Hungary to the EU

286/V/EU/Adm./2006.

Mr Matthias Ruete

Director-General

European Commission

Energy and Transport Directorate-General

Brussels

Dear Mr Ruete,

In accordance with Article 4(1) of Directive 2003/30/EC on the promotion of the use of biofuels or other renewable fuels for transport, Member States are to report to the Commission before 1 July every year on:

- the measures taken to promote the use of biofuels and other renewable fuels to replace petrol and diesel for transport purposes;
- the national resources allocated to the production of biomass for energy uses other than transport, and
- total sales of transport fuel, and the share of biofuels, pure or blended, and other renewable fuels placed on the market for the preceding year. Where appropriate, Member States shall report on any exceptional conditions in the supply of crude oil or oil products that have affected the marketing of biofuels and other renewable fuels.

With regard to the factors set out in Article 4(1) of Directive 2003/30/EC, the Government of Hungary can provide the Commission - in the three sections below - with the following information on the measures taken in 2005 to promote the use of biofuels for transport purposes.

1. Measures taken by the Government of Hungary to promote the use of biofuels and other renewable fuels to replace petrol and diesel for transport purposes.

The Government of Hungary has defined national targets in respect of promotion of the use of biofuels and other renewable fuels for transport purposes in "Government Decision 2233/2004. (IX.22.) on national objectives relating to the use of biofuels and other renewable fuels for transport". Annex 1 contains the text of the Government Decision.

The Hungarian Government - on the basis of the situation in Hungary - defined a target value of 0.4-0.6% of the fuel sold in Hungary in 2005, expressed as a percentage of the energy content. Furthermore, in the interest of increasing the proportion of biofuel used, it was decided to introduce a refund of the excise duty until 2010, thereby encouraging the blending of biofuels with standard automotive fuels. Until 31 December 2010, distributors of fuel will be able to claim a refund of the excise duty on ETBE (ethyl-tertio-butyl-ether) produced on the basis of bioethanol and added to automotive fuel, and also on biodiesel of regulation quality mixed with diesel.

Hungary transposed the provisions of Directive 2003/30/EC into Hungarian law by Government Decree 42/2005. (III.10.) on specific rules on the use of biofuels and other renewable fuels for transport. The text of the Government Decree is to be found in Annex 2.

After the creation of an appropriate legal framework, production of ETBE began in Hungary in the second half of 2005. Today, the ETBE content of fuel in Hungary has reached an average of 1.1%.

The tax concession introduced in support of the use of biodiesel for transport was intended to promote the blending of a maximum of 5% of regulation biodiesel with regulation quality diesel fuel. The tax concession did not achieve the hoped-for incentive impact.

With an average yield of 1.8-2 t/ha, rape production in Hungary is below the EU

average (3 t/ha), and this is the raw material for the production of biodiesel in compliance with the regulations currently in force. The conditions for the production of sunflower oil are more favourable, but the necessary parameters for the production of regulation quality biodiesel from this do not exist in Hungary.

The maximum tax concession which could be granted of 85 HUF/litre (340 EUR/1 000 litres) could not guarantee the profitability of biodiesel production. It is probable that Hungarian biodiesel could not have competed on the German market either, which guarantees much more favourable conditions, with biodiesel produced in the neighbouring countries, and this is presumably the reason why investments failed to materialise.

In June 2005 a comprehensive analysis was prepared of the biodiesel potential in Hungary. Following Parliamentary Decision 63/2005. (VI.28) on more effective promotion of alternative and renewable sources of energy, the government is preparing a legal framework for promoting alternative and renewable sources of energy. The text of the parliamentary decision is included in Annex 3.

Calculations show that 4-8 times as much agricultural raw material could be produced for manufacturing bioethanol as the amount required to attain the national target figure of 5.75% by 2010, while the same figure for the production of biodiesel would be 0.6-1.4 times the amount of material. These minimum levels have been calculated on the basis of current agricultural production levels, and the maximum levels have been calculated on the assumption of an increase in production for energy purposes.

Government Decision 2058/2006. (III.27.) concerning the development of production of biofuels and promotion of their use for transport sets the national target at 5.75% by 31 December 2010. To achieve this the Government has passed a package of measures. In the interest of providing economic incentives to achieve a certain proportion of biodiesel, the measures include tax concessions related to biofuel, as defined in Law No CXXVII of 2003 on excise duty and laying down specific rules on the sale of products subject to excise duty, the continuous transposition of changes in European fuel standards, support for production of

base material and for processing capacity, the planning of the support measures in National Development Plan II, the drawing up of the action plan for biofuel, the development of the information programme, and research and development in the field of biofuel production technologies. The text of the Government Decision is in Annex 4.

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

In 2005, within the framework of the Environmental and Industrial Infrastructure Operative Programme, 1 600 million forint was allocated in support of renewable sources of energy. The investments serve mainly the building of wind turbines, the exploitation of geothermal energy, and the production of solid alternative combustible matter. After evaluation of the tenders, 13 projects were found to be feasible.

3. Total sales of transport fuel, and the proportion of biofuels, pure or blended, and other renewable fuels placed on the market in the preceding year. Any exceptional conditions in the supply of crude oil or oil products that have affected the marketing of biofuels and other renewable fuels.

The table below provides information on total sales of transport fuel in 2005, based on provisional data from "Energia Központ" (*Energy Headquarters*), the Energy Efficiency, Environment and Energy Information Agency Kht (*public utility*) including the share of ETBE and, at the same time, for information, the development of similar data for 2006 (the calculation was made using the following values: automotive petrol and diesel: 42 MJ/kg; ETBE: 34.9 MJ/kg).

	2005, kt	2005, PJ	2006, kt	2006, PJ
Automotive petrol	1 462	61.4	1 500	63
Automotive diesel	2 475	104,0	2 550	107
Total	3 937	165.4	4 050	170
Of which, 47% ETBE (Source: Hungarian Oil and Gas Company)	3.3	0.12	17.1	0.6

In 2005, consumption of fuel amounted to 165.4 PJ, of which ETBE accounted for 0.12 PJ. The proportion of biofuel was 0.07%. At the same time, we can state that after starting distribution of ETBE – assuming an even spread of consumption over five months of the year – the bio-component of automotive petrol expressed as a percentage of energy content has reached 0.5%.

In 2006, the proportion of biofuel as a percentage of total fuel sales is forecast to reach a probable 0.4% (not yet taking biodiesel into account), and 1.0% of petrol.

The estimate does not take into account the fact that in 2006 fuel containing an appreciable quantity of bio-component will arrive in Hungary from other Member States or from outside the EU, mainly on account of the significant demand for biodiesel on the German and Austrian markets.

In January 2006, the Hungarian Oil and Gas Company launched a tender for the supply of vegetable fuel oils which can be used as the raw materials for the production of biodiesel and biodiesel component.

Nevertheless, in view of the way in which those involved with the market have acted to date, it can be stated that energy prices and production costs of biofuels are rising steadily, and the consequence is that any appreciable market

penetration by biofuels does not appear realistic without subsidies. Progress only seems possible in future if there are Community subsidies, if there are second generation technical solutions in the biofuels sector, and if there is a harmonised definition of the environmental benefit and energy balance calculated on the basis of the whole life cycle starting from the source of the raw materials.

Budapest, 3 August 2006

Yours sincerely,

Tibor Kiss
Ambassador

Annexes

File closed: 30 June 2006

CompLex Law Compendium

Entry into force: 21.12.2004 Ministry of Economic Affairs and Transport

In force - Government Decision 2233/2004. (IX.22.)

Page 1

Government Decision 2233/2004. (IX.22.)

on national objectives relating to the use of biofuels and other renewable fuels for transport

The Government

1. Agrees that

a) taking national circumstances into account, the national biofuel content target required by Directive 2003/30/EC of the European Parliament and of the Council of 8 May 2003 on the promotion of the use of biofuels or other renewable fuels for transport should reach 0.4%-0.6% by 2005, expressed as a percentage of the energy content of the fuels sold in Hungary;

b) in the interest of increasing the percentage of biofuel used, an excise-duty refund will be applied until 31 December 2010 to the ETBE (ethyl-tertio-butyl-ether) produced on the basis of bioethanol blended with automotive petrol and to regulation quality biodiesel mixed with diesel. This tax concession will promote the blending of biofuels with standard motor fuels in the interest of achieving a 2% share of biofuel in fuels sold, as a percentage of the energy content, by 2010.

The target values indicated in a) and b) will subsequently become a legal obligation under the section concerning biofuels of the Strategy for Renewable Energy;

2.¹

3. Calls upon the Ministers concerned to examine the economic, technical and environmental aspects of the use of waste cooking oil in the production of

¹ *Repealed: Section 2. of Govt Decision 2333/2004 (XII. 21.) ineffective as from 21.12.2004*

biodiesel, the mixing of bioethanol directly with petrol and of the use of other renewable fuels.

Responsibility: Minister of Economic Affairs and Transport
Minister of Environment and Water
Management
Minister of Agriculture and Rural Development

Deadline: 31 May 2005

4.¹ Calls on the Ministers concerned to perform an annual review of the production costs of biofuels and the subsidy situation, and to present a report on this by 1 July of the following year to the European Commission.

Responsibility: Minister of Economic Affairs and Transport
Minister of Finance
Minister of Agriculture and Rural Development

Deadline: Immediate

¹ *Promulgated: Govt. Decision 2333/2004. (XII.21.) Valid as from 21.12.2004*

Government Decree 42/2005. (III.10.)

on specific rules on the use of biofuels and other renewable fuels for transport

In the interest of fostering the use of biofuels and other renewable fuels for transport, the Government decrees the following:

1. § The scope of the decree covers the use of and trade in biofuels and other renewable fuels for transport purposes.

2. § For the application of the Decree:

a) biofuel: fuel in liquid or gas state made from biomass. The following should be considered biofuels: bioethanol, biodiesel, biogas, biomethanol, biodimethyl ether, bio-ETBE (ethyl-tertio-butyl-ether), bio-MTBE (methyl-tertio-butyl-ether), synthetic biofuels, biohydrogen and pure vegetable oil, and any fuel defined as biofuel in other legal provisions. Biofuels include:

aa) bioethanol: ethanol that can be used as biofuel, made from biomass or from biodegradable parts of waste;

ab) biodiesel: sebacic vegetable oil ethylene ether of diesel fuel quality that can be used as biofuel;

ac) biogas: gaseous fuel made from biomass or the biodegradable component of waste, which can be cleaned to obtain natural gas quality and used as biofuel, or tree-gas;

ad) biomethylene: methanol obtained from biomass and used as biofuel;

ae) bio-dimethyl ether: dimethyl ether which can be used as biofuel, made from biomass

af) bio-ETBE (ethyl-tertio-butyl-ether): ETBE produced on the basis of bioethanol, the biofuel content of which is 47% by volume;

ag) bio-MTBE (methyl-tertio-butyl-ether): fuel produced on the basis of biomethylene, the biofuel content of which is 36% by volume;

ah) synthetic biofuel: synthetic hydrocarbon or synthetic hydrocarbon fuel mix produced from biomass;

ai) biohydrogen: hydrogen produced from biomass or the biodegradable component of waste materials and which can be used as biofuel;

aj) pure vegetable oil: oil obtained by pressing, extracting or by similar procedures, from oleaginous seeds, in a crude or refined, but chemically unchanged state, which is suitable for the given types of engine and fulfils the emission requirements;

b) biomass: the biodegradable part of products originating from agriculture (including plant and animal materials), from forestry or food processing, and from products, waste or residual matter originating from related industries, and the biodegradable part of industrial and communal waste;

c) other renewable fuels: those renewable fuels apart from biofuel which are derived from renewable energy sources defined in other legislation¹ and are used for transport purposes;

d) energy content: the minimum calorific value of fuel (kJ/kg).

3. § (1) Biofuel may be sold and used as described below:

a) as pure biofuel or in high concentration petroleum derivatives, in conformity with the specific quality regulations concerning use for transport;

b) as biofuel added to petroleum derivatives, in conformity with national standards transposing harmonised European standards concerning the technical requirements of fuels used in transport;

c) as liquid derived from biofuel, in respect of which the biofuel content is defined in **2. § af)** and *ag)*.

(2) In accordance with a separate piece of legislation² solely (1) biofuel produced in the form laid down in (1)*b)* shall be eligible for excise-duty refund.³

(3) The provisions of the legislation⁴ concerning the quality requirements of motor vehicle fuels and the periodical taking of samples of motor vehicle fuels must also be applied to biofuels.

¹ See Law Cx of 2001; Ministry of Economic Affairs and Transport Decree 56/2002 (XII.29.)

² See Law CXXVII. of 2003

³ Amended: Hungarian Official Gazette 20045/45

⁴ See Ministry of Economic Affairs Decree 5/2000 (II.16.); Ministry of Economic Affairs and Transport Decree 59/2004 (IV.24.)

(4) The increased propagation of biofuels should not result in a reduction in the sale or use of other fuels which comply with the relevant legal provisions and standards.

4. § (1) The distributor of biofuel is required to ensure that customers receive information on the availability of biofuels and other renewable fuels.

(2) If the distributor sells fuel, in which the proportion of biofuel added to petroleum derivatives exceeds the limits of 5% sebacic acid methyl ether or 5% bioethanol, this must be specifically shown on a poster or digital display - and the exact percentage indicated.

5. § (1) Distributors of biofuel and other renewable fuel is obliged to inform by 15 May every year the transport minister responsible (hereinafter, "the Minister") of the amount of biofuel, by type, and other renewable fuel sold in the previous calendar year.

(2) It is the Minister's task to fulfil the notification responsibilities laid down in Article 4 of Directive 2003/30/EC of the European Parliament and of the Council.

6. § (1) This Decree shall enter into force on the eighth day following its publication.

(2) The deadline for the forwarding of the information specified in paragraph **5. § (1)** of this Decree is 1 June 2005.

(3) The Minister is authorised to lay down detailed provisions in a decree in respect of the information specified in paragraph **5. § (1)**.

7. § The purpose of this Decree is conformity with Directive 2003/30/EC of the European Parliament and of the Council of 8 May 2003 on the promotion of the use of biofuels or other renewable fuels for transport.

Parliamentary Decision No 63/2005. (VI.28.)

**concerning more effective promotion of alternative and renewable sources
of energy**

1. The Parliament calls upon the Government to draw up legal provisions for more effective promotion of alternative and renewable sources of energy, and in particular:

1.1. In the interest of greater security for investors in alternative and renewable energy projects for the production of electricity, compulsory acceptance of supplies of electricity and the conditions for this must be regulated by an Act of Parliament.

1.2. In the interest of promoting alternative and renewable energy projects a simplified procedure for environmental authorisation must be established.

1.3. In the interest of better use of our thermal resources, the necessary legislative amendments are to be made.

1.4. In the interest of progress in promoting liquid sources of energy produced from agricultural materials, and also in view of the European Union's recommendations, the blending of those sources of energy into fuels must be assured at the rate of 2% as from 2007 and at least 4% as from 2010. The regulation must uphold the interests of domestic producers of materials as a matter of high priority. With regard to the excise duty, in the interest of promoting the propagation of biofuel, it must be given preference over liquid fuel derived from conventional mineral oil.

1.5. In the interest of increased production of biogas, the gas laws shall be amended so that it will be possible to introduce biogas which fulfils the quality regulations into the existing gas system.

1.6. The Ministry of Agriculture and Rural Development, in compliance with the European Union aid systems, shall draw up rules governing the form of aid to be given for crops which can be used to produce energy and other agricultural by-products, taking into account the extent to which sources of energy of agricultural origin can be utilised.

1.7. In the interest of increasing the areas planted for energy production, the

forestry laws must be amended.

2. The Government shall report to the Parliament by 30 November 2005 on the implementation of the tasks laid down in the section 1.

3. This Decision shall take effect on the day of publication.

c) a national standard should be introduced in respect of E-85 fuel;

Responsibility: Minister of Economic Affairs and Transport

Deadline: 30 June 2006.

d) in the interest of allowing the use of biodiesel made from sunflower oil, an examination must be made of whether partial use of sunflower oil as a base material (blended with rape seed oil) can meet the EN 14 214:2003 standard requirements, and further, of whether a national standard must be drawn up to allow sunflower oil to be used as a raw material;

Responsibility: Minister of Economic Affairs and Transport

Minister of Environment and Water
Management

Deadline: 30 September 2006.

e) an examination must be made of whether the use of biofuels produced from used cooking oil and subject to exemption from or reduction of excise duty can be extended to motorised vehicles providing a local bus transport service, in accordance with technical, economic and environment aspects;

Responsibility: Minister of Economic Affairs and Transport

Minister of Agriculture and Rural Development

Minister of Finance

Minister of Environment and Water
Management

Deadline: 30 November 2006

2. deems it necessary to develop production and processing capacity for primary materials for biofuels, with due regard not only to satisfying domestic needs, as

set out in paragraph 1., but also to exploiting the growing export opportunities which are arising from European demand for biofuels. In the interest of accomplishing this:

a) an examination must be carried out of whether it is possible to extend the agricultural support required for the competitive production of the basic material required for the manufacture of 800 kt per year of ethanol (wheat, maize and other), in addition to 170-2000 kt per year of biodiesel (rape, sunflowers), and if this aid is possible, on the basis of the results of this examination, then plans must be made concerning how to provide it within the framework of the National Rural Development Strategy;

Responsibility: Minister of Agriculture and Rural Development

Deadline: 31 May 2006

b) an examination must be made of what aid can be provided in conformity with EU aid provisions for the development of the necessary biofuel production capacity for the processing of raw material, as provided for in a), and of other conditions (*inter alia*, trade in emissions), and plan must be drawn up concerning any possible and economically justified aid within the framework of the Second National Development Plan. Given the current modification process in respect of national aid provisions, the specific aid plan should be drawn up in consultation with the Ministry of Finance's Aid Investigation Agency;

Responsibility: Minister of Economic Affairs and Transport

Minister without portfolio responsible for
European Affairs

Minister without portfolio responsible for
Regional Development and Cohesion

Minister of Environment and Water
Management

Minister of Finance

Deadline: 30 June 2006

c) an action plan must be drawn up in connection with biofuels and other renewable fuels (animal fats, used cooking oil, etc), to include the energy balance, the establishment of smaller biofuel production capacities and, taking into consideration rural development aspects, the determination of the suitable scale of these capacities, and including the possibility of producing and processing raw materials for biofuel by coordinating developments at small-area level;

Responsibility: Minister of Agriculture and Rural Development
Minister for Environment and Water
Management

Deadline: 31 July 2006.

3. decrees that a comprehensive information programme should be drawn up to bridge the information gap in respect of the activities associated with the production and processing of biofuels, and to promote the necessary knowledge of the field. Within this framework, an examination must be made of the possibility and necessity of establishing and putting into operation an expert network;

Responsibility: Minister of Economic Affairs and Transport
Minister of Agriculture and Rural Development
Minister of Environment and Water
Management

Deadline: 31 July 2006.

4. deems it necessary that from the middle of 2006 priority support should be given, within the framework of the National Research and Technology Office's tender system, for work in research and development of biofuels production technology and in the field of solving application technology problems, and

primarily in the field of producing second generation biofuels from by-products and organic waste.

Responsibility: Minister of Education

Minister of Economic Affairs and Transport

Deadline: 30 June 2006 (drawing up of the specifications for tenders, publication of the invitation to tender, ongoing processing).