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Third report to the European Commission

under Article 4(1) of 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

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Introduction

This report is presented pursuant to Article 4(1) of 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, which is worded as follows:

“Member States shall report to the Commission, before 1 July each year, on:

- 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, and
- the 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.

In their first report following the entry into force of this Directive, Member States shall indicate the level of their national indicative targets for the first phase. In the report covering the year 2006, Member States shall indicate their national indicative targets for the second phase.

In these reports, differentiation of the national targets, as compared to the reference values referred to in Article 3(1)(b), shall be motivated and could be based on the following elements:

- (a) objective factors such as the limited national potential for production of biofuels from biomass;
- (b) the amount of resources allocated to the production of biomass for energy uses other than transport and the specific technical or climatic characteristics of the national market for transport fuels;
- (c) national policies allocating comparable resources to the production of other transport fuels based on renewable energy sources and consistent with the objectives of this Directive.

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

Legislative measures

*** Act No 98/2004 Coll. on excise duty on mineral oil, as amended by Act No 667/2004 Coll. and Act No 223/2006 Coll.**

laying down the rates of excise duty for petrol and diesel fuel and for other, alternative motor fuels (biofuels, LPG, CNG).

Differentiation of rates of excise duty:

(a) biocomponents blended with fossil motor fuels, in an amount not exceeding 5% vol. in the case of esters and in an amount not exceeding 15% vol. in the case of ETBE, are not subject to excise duty;

an operator of a tax warehouse, being an undertaking which produces mineral oil, is authorised to blend bio-components on the basis of a permit, in the presence of a person who is duly authorised by a customs office;

(b) vegetable fats and oils, including those which have been chemically modified, listed in Chapter 15 of the Customs Nomenclature, and esters produced from them which are offered for use or are used as motor fuel, are not regarded as mineral oil if the proportion of hydrocarbons they contain does not exceed 5% vol.

The Act lays down the following rates of excise duty per 1000 litres of fuel:

(a)

for petrol (CN codes 2710 11 41, 2710 11 45 and 2710 11 49)

* with effect from 1 May 2004

- max. sulphur content 50 mg/kg (as from 01.01.2005) SKK 15 500

- max sulphur content 10 mg/kg (as from 01.01.2009) SKK 15 500

- ETBE content max. 15% vol. SKK 14 384

(rate reduced by 48/100 of the percentage ETBE content, subject to a ceiling of 7.2%)

for diesel fuel (CN codes 2710 19 41, 2710 19 45 and 2710 19 49)

* with effect from 1 May 2004

- max. sulphur content 50 mg/kg (as from 01.01.2005) SKK 14 500

- max sulphur content 10 mg/kg (as from 01.01.2009) SKK 14 500

- FAME content max. 5% vol. SKK 13 775

(rate reduced by percentage FAME content, subject to a ceiling of 5%)

(b)

for the specified biofuels a zero rate of excise duty applies with effect from 1 May 2006.

*** Act No 105/2004 Coll. on excise duty on alcohol and amending Act No 467/2002 Coll. on the production and placing on the market of alcohol, as amended by Act No 211/2003 Coll.**

imposing excise duty on alcohol

Exemption from excise duty on alcohol:

alcohol is exempt from duty if intended for use in the production of mineral oils, in the amount determined by the standard rate of consumption required for production.

On 21 December 2005, the Government of the Slovak Republic debated and approved the “**National Biofuels Development Programme**” and adopted Resolution No 1022, which laid down the tasks necessary to *ensure full transposition of Directive 2003/30/EC* into Slovak law and hence also the implementation of the national biofuels programme.

Directive 2003/30/EC has been fully transposed into Slovak law, and the relevant legislative measures are contained in:

- > **Act No 98/2004 Coll.** on excise duty on mineral oil (entry into force 1 May 2004), **as amended by Act No 667/2004 Coll.** (entry into force 1 December 2004) and **Act No 223/2006** (entry into force 1 May 2006);
- > **Act No 105/2004 Coll.** on excise duty on alcohol (entry into force 1 May 2004), as amended;
- > **Government Regulation No 246/2006 Coll.** on the minimum amount of motor fuels produced from renewable sources in the range of petrol and diesel fuels placed on the market in the Slovak Republic (entry into force 1 May 2006);

under this Regulation, persons engaged in the production of fuels (“producers”) and persons engaged in the sale of fuels (“vendors”) are obliged to place on the market biofuels (or other renewable fuels) in the amounts laid down in the Regulation, namely:

- in pure form or at high concentration in mineral oils (e.g. in accordance with the quality requirements of technical standard STN EN 14 214),
- as blends of petrol or diesel fuel with biofuels (e.g. in accordance with the quality requirements of STN EN 228 and STN EN 590),
- as liquids (ethers) such as bio-ETBE (ethyl-tertio-butyl-ether) or bio-MTBE (methyl-tertio-butyl-ether) produced from biofuels (on the basis of bioethanol or biomethanol), used in blends with petrol in accordance with the quality requirements of STN EN 228;

producers and vendors are obliged to offer in petrol and diesel fuels for transport purposes minimum amounts of biofuels (or other renewable fuels), expressed:

- (a) until 31 December 2006 in a reference value of 2%, calculated on the basis of the energy content of the total amount of petrol and diesel fuel placed on the market,
- (b) from 1 January 2007 to 31 December 2009 in a reference value of 2%, calculated on the basis of the energy content of the total amount of petrol and diesel fuel placed on the market,
- (c) from 1 January 2010 to 31 December 2010 in a reference value of 5.75%, calculated on the basis of the energy content of the total amount of petrol and diesel fuel placed on the market.

This is making it possible to “start up” the biofuels programme, mainly by blending esters (max. 5% vol.) with diesel fuel and later by blending ETBE or bioethanol (max. 15% or max. 5% vol.) with petrol.

In view of the ever-changing prices on the crude oil and motor fuels markets, it will continue to be necessary to monitor the development of prices when biofuels come onto the market and, in that context, the saleability of biofuels, as well as the resulting need for essential support from the State for the implementation of the biofuels programme in the conditions prevailing in the Slovak Republic. To this end, an evaluation report will be drawn up each year, along with proposal for necessary measures.

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

The total energy potential of biomass for energy uses other than transport is more than 100 PJ, and the highest growth in the use of biomass has been recorded in heat production in the heating sector. In years to come, biomass will also offer good prospects as a 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 about 1 810 000 tonnes by 2010, which equates to some 17 PJ. After 2010, the forest biomass balance may increase in real terms as a result of increased wood production and of growing stands of trees for energy use on an area of 45 400 ha.

Stands of quick-growing woody plants for energy use and annual and perennial energy crops offer good prospects as a source of fuel biomass. Energy stands may be planted on land unsuitable for conventional agricultural and forestry production, soils temporarily excluded from agricultural production, contaminated soils suitable only for non-food production and industrial wastelands.

The wood-processing industry, which produces 1 410 000 tonnes of waste a year, is another source of wood suitable for energy production. The total energy value of the usable waste produced by the wood-processing industry is 18.1 PJ, of which two-thirds comes from the mechanical processing of wood and one-third from black lye. The biggest waste producers are large timber-processing firms which, however, most often use this waste for energy production purposes.

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

2.1. Programmes to promote the production of electricity from renewable energy sources

Projects using renewable energy sources, including biomass, for the production of electricity and heat are supported by funding from the EU structural funds and the Environmental Fund.

2.1.1. EU structural funds

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

- (a) Industry and Services sectoral operational programme;
- (b) Basic Infrastructure operational programme;

(c) Agriculture and Rural Development sectoral operational programme.

Industry and Services sectoral operational programme (SOP PS) – Measure 1.4: Support for energy-saving and the use of renewable energy sources.

Since this involves assistance to businesses, compliance with the rules on 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 may be provided only for projects which constitute entry investment or an element thereof, i.e. investment in the establishment of a new undertaking, expansion of an existing undertaking, launch of activity requiring a significant modification of a product or 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 a project. The aid intensity is 50% of eligible costs, plus a 15% bonus for SMEs.

The primary objective of **environmental assistance** is to protect the environment, and in particular to reduce emissions of pollutants and greenhouse gases. Eligible costs comprise only the increased costs necessarily incurred by businesses in order to achieve the project objectives. They are further reduced by a sum representing the five-year savings in external costs achieved by implementing the project.

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

SKK 886 million, including co-financing from the State budget, was approved for the programming period 2004-2006 for *Measure 1.4: Support for energy-saving and the use of renewable energy sources*. Support was given to 24 of the 27 projects submitted on the use of RES, 13 of them concerning the use of biomass.

Basic Infrastructure operational programme

The specific objective of the Environmental Infrastructure priority, based on strategy approximation in the field of the environment, is focused on the completion of environmental infrastructure to ensure public health and the preservation, protection and restoration of the natural environment in Slovakia, and it is achieved through the 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 of the main pollutants (SO₂, NO_x, CO, C_xH_y, particulates), the fulfilment of obligations arising from the Kyoto Protocol as regards the reduction of greenhouse gas emissions,

utilisation of environmentally friendly fuels and energy sources, and support for more intensive use of renewable energy sources and the rational use of non-renewable energy sources.

The final recipients in this case are the regions and municipalities, the State administration and businesses, although it is the citizens of the affected areas/the citizens of Slovak Republic and the Community who are the target group. The provision of assistance to businesses is governed by similar rules to those that apply to Measure 1.4 SOP PS.

Agriculture and Rural Development sectoral operational programme

Projects focused on the use of RES can be submitted as part of the first priority. The main objective of Measure 1.1 – “Investment in agricultural enterprises” is increased labour productivity and competitiveness while protecting the environment.

The specific targets also include support for the use of environmentally friendly technologies and equipment. Eligible recipients and natural are legal persons conducting business in primary agricultural production.

The main objective of Measure 1.2 – “Improvement of processing and marketing of agricultural products”, is to increase the competitiveness and quality of processed food products, including organic products, while at the same time mitigating negative environmental impacts. Specific targets are also focused on the mitigation of negative impacts on the environment. Eligible recipients are natural and legal persons conducting business in the processing the products of primary agricultural production.

3. 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

In 2005, the Slovak motor fuels market (about 78.1 PJ) was clearly marked by the predominance of fuels obtained from the processing of crude oil (over 97.5%). The reference value for alternative motor fuels (LPG, CNG) is less than 2.5% (the respective shares, in terms of the energy content of the fuels, being LPG 2.30% and CNG 0.18%).

Fuel consumption in the Slovak national market in 2001-2005 is shown in the following table:

Commodity	2001	2002	2003	2004	2005(1)
Petrol	612 kt 655 ktoe	726 kt 777 ktoe	668 kt 715 ktoe	614 kt 657 ktoe	687 kt 735 ktoe
Diesel	825 kt 854 ktoe	1007 kt 1042 ktoe	893 kt 924 ktoe	954 kt 987 ktoe	1047 kt 1084 ktoe
Petrol + diesel combined	1509 ktoe	1819 ktoe	1639 ktoe	1644 ktoe	1819 ktoe
Esters	38 kt 30.86 ktoe	3 kt 2.44 ktoe	2 kt 1.62 ktoe	1 kt 0.81 ktoe	*
Bioethanol	*	*	*	*	*
LPG	25 kt 28.25 ktoe	29 kt 32.77 ktoe	32 kt 36.16 ktoe	35 kt 39.55 ktoe	38 kt 42.94 ktoe
CNG			6 distribution points/stations for bus transport	4 / 2.9 mill. m ³ /kt 3.24 ktoe	4.2 mil. m ³ 3.40 ktoe

Source: Statistical Office of the Slovak Republic (ŠÚ SR)

Notes concerning the table:

(1) the data for 2005 are estimates, as the State statistical surveys are not complete,

* the State statistical surveys for the relevant year are being conducted by the ŠÚ SR by gathering data and evaluating the:

“Annual inventory of sources and distribution of fuels and energy (Energ 6-01)” and the

“Annual inventory of renewable sources of fuels and energy (Energ 3-01”, which are not yet complete, and for that reason no figures are given.

Conclusion

The differentiation of the indicative target for 2005 in the context of placing biofuels on the Slovak motor fuels market is based in particular on:

- (a) objective factors such as the limited national potential for production of biofuels from biomass; given the insufficient development of sources for the national market, the required volumes of biogenous materials were not available;
- (b) the fact that Directive 2003/30/EC, which makes it possible to “start up” the biofuels programme, mainly by blending esters (max. 5% vol.) with diesel fuel, and later by blending ETBE or bioethanol (max. 15% or max. 5% vol.) with petrol, was not fully transposed into Slovak law until the beginning of the second half of 2006;
- (c) the volume of resources allocated to the production of biomass for energy uses other than transport and specific technical or climatic characteristics of the national market for transport fuels; SKK 886 million was approved from the structural funds for projects using renewable sources of energy, including co-financing from the State budget; of this, SKK 400 million was allocated to projects using biomass. 24 out of the 27 submitted projects aimed at the use of RES received support; 13 of the supported projects are biomass-use projects.

The Ministry of Economic Affairs and the Ministry of Agriculture submitted the “National Biofuels Development Programme” to the Slovak Government for approval; this programme was based on the characteristics of the current situation and the possibilities for future development within the following chain: cultivator/farmer - processor - bio-component and motor fuel producer – distributor – consumer/customer. The business entities involved in the implementation of this programme within this chain fall within the remit of the Ministry of Agriculture (plant and animal production, distilling and the fat industry) and of the Ministry of Economic Affairs (production of esters, production of ETBE from bioethanol and production of motor fuels by processing crude oil, and the warehousing, distribution and sale of motor fuels).

Originally, an alternative was prepared which provided for financial support from the State to bio-component producers. Owing to the significantly increased prices for oil and motor fuels on the Slovak national market in 2005 (compared with 2004) and in accordance with the conclusions agreed by the Ministry of Economic Affairs and the Ministry of Agriculture, the Slovak Government approved a national biofuels programme which does not take into account financial support from the State, and the impact 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:

- > reduced rate of excise duty on biofuels in an amount equal to the sum of the duty payable in respect of the volume of fuels present in the product which is eligible for relief,
- > zero rate of excise duty for esters of higher fatty acids offered for use or used as motor fuel, if the proportion of hydrocarbons contained in them does not exceed 5% vol.

A Government regulation has been adopted under which all entities putting petrol and diesel fuel into free circulation in the Slovak Republic are obliged to introduce minimum amounts of biofuels into their range of motor fuels, as what is known as the “mandatory offer”, so that biofuels can break into the market.

In view of the ever-changing prices on the crude oil and motor fuels markets, the development of prices will continue to be monitored when biofuels come onto the market and, in that context, the saleability of biofuels (an evaluation report will be drawn up each year, along with a proposal for necessary measures). The resulting requirements for essential aid from the State will be met in conformity with the rules on State aid rules, in accordance with EU rules (overcompensation), i.e. as the difference between costs and current prices, so that biofuels can succeed on the Slovak national market for fossil motor fuels.