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Poland

Bio-Fuels

New Tax Incentives Are Not Enough For Polish Biofuel Producers

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Report Highlights:

Polish Parliament approved new tax incentives for biofuel production, but they appear insufficient to further stimulate production. The biofuel industry expects more assistance.

Includes PSD Changes: No
Includes Trade Matrix: No
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ADDITIONAL TAX EXEMPTION FOR BIOFUEL PRODUCERS

The current prognosis for biofuel production is mixed in Poland. In 2006, there were great expectations within the industry that government incentives would lead to new investments. But, previous tax exemptions have not proven attractive enough to the industry and newly announced exemptions most likely will not be sufficient enough to stimulate new investment in biofuel production. As a result, expansion of the biofuel industry may slow significantly and create a situation of over supply of rapeseed.

The Polish government introduced basic biofuel legislation in August 2006 (see PL 6051, dated 17/31/2007) and related tax regulations in January 2007 (see PL 7003, dated January 17, 2007). In response to continued industry complaints that the tax incentives were too small to offset additional costs related to biofuel production, on May 11, 2007, Parliament approved additional tax incentives for biofuel production.

Under the new legislation, the excise tax exemption for biofuel producers is increased about five percent, from PLN 1.0 to PLN 1.048 (Euro 0.28, USD 0.37) for each liter of esters added to biodiesel, and about four percent, from PLN 1.5 to PLN 1.565 (Euro 0.41, USD 0.56) for each liter of ethanol added to bioethanol blends. Also, the excise tax for 100 percent biodiesel and bioethanol fuels is reduced to almost zero (from PLN 0.20 to PLN 0.01 or Euro 0.003, USD 0.004).

According the National Biofuel Chamber, these changes still are insufficient and likely will lead to a reduction in planned investment in biofuel production facilities. Also, the industry notes that, to date, standards have not been established for pure bioethanol. Until standards are published, the product cannot be sold. In response to industry concerns, additional incentives are being considered and will be reported after they are announced.

According the National Biofuel Chamber, the price differences between biofuels and crude oil-based fuels in Poland are not enough to increase consumer demand for biofuels. According to the Chamber, the current wholesale price of one metric ton of crude oil-based diesel fuel is PLN 3,600 (Euro 947, USD 1,286), while one metric ton of B-100 biodiesel is PLN 3,550 (Euro 934, USD 1,268). Thus, one liter of B-100 is only PLN 0.05 (Euro 0.01, USD 0.004) less than conventional diesel fuel. In contrast, in Germany, the price difference is Euro 0.10-0.15. According to the Chamber, for B-100 to be competitive, its wholesale price needs to be at least PLN 450 (Euro 119, USD 161) per metric ton lower than the wholesale price of conventional diesel fuel.

The May 11, 2007 legislation also brought changes to penalties that will be levied against sellers (wholesale and retail) and farmers who produce for their own use, who fail to meet the National Indicator Goal for biofuels. The penalty has been increased ten fold and undoubtedly will encourage the sale and use of biofuels, according industry representatives--once the national goals are mandatory. The national goals are expected to be announced in June 2007, with enforcement beginning in July 2007 or January 2008.

ADDITIONAL SUPPORT FOR RAPESEED PRODUCERS

The recent legislation also provides additional financial incentives to farmers who contract to produce rapeseed for biodiesel production. In addition to the EU crop subsidy of PLN 171 (Euro 45, USD 61) per hectare they currently can receive, farmers contracting rapeseed for esters production will qualify to receive a locally funded subsidy of PLN 176 (Euro 46, USD 63) per hectare. It is expected this additional financial incentive will encourage farmers to contract and plant rapeseed for biodiesel production. This support will also encourage farmers to plant rapeseed for producing biodiesel for their own use.