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Bio-Fuels

Cheap Biodiesel Imports Could Potentially Impact German Rapeseed Oil Trade Balance

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Report Highlights:
German biodiesel producers claim that it is more economical to sell rapeseed oil to the U.S. and import B99 than produce biodiesel from the same rapeseed oil domestically. The current market conditions have resulted in the first German biodiesel companies giving up production at least temporarily. If cheap biodiesel imports make domestic German biodiesel production uneconomical, roughly 2.4 million MT of rapeseed oil will have to be used differently and Germany could well become a net exporter of rapeseed oil again.

Includes PSD Changes: No
Includes Trade Matrix: No
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The German Biofuels Industry Association (VDB) claims that the U.S. blender's credit of $1 per gallon ($0.26 per liter) allows U.S. B99 to be offered in Germany at a price of 53.25 Euro per 100 liter including transport and duty, while production costs of biodiesel in Germany amount to 64 Euro per 100 liter. This allegedly is driving German biodiesel producers out of the market.

Campa AG, one of the top ten German biodiesel producers, is one but not the only example to illustrate this development. Campa recently announced that they stopped producing biodiesel in their existing plant in Ochsenfurt. The plant has an annual biodiesel production capacity of 150,000 MT, translating into 45 million gallons. The company has also put on hold the construction of an additional plant in Straubing with a capacity of 200,000 MT or 60 million gallons. Instead they are only building an oil mill at this location. Campa managers cite the competition of imported B99 as the major driver behind this decision. At a market price for rapeseed oil of 600 Euro per MT, it is more profitable to export the rapeseed oil to the U.S. and import biodiesel which benefits from the U.S. blenders credit than producing biodiesel from rapeseed oil in their own plant.

A change in the German biodiesel support system which resulted in higher taxes on biodiesel in combination with a high rapeseed oil price and a low diesel prices largely reduced the competitiveness of B100 biodiesel in January and February 2007. However, since then, diesel prices have rebounded to a level that, according to the German biodiesel industry, allow domestically produced biodiesel to be competitive again it if were not for the imported B99.

Impact on vegetable oil trade

Over the past years biodiesel production in Germany has increased dramatically. The vast majority of biodiesel in Germany uses rapeseed oil as feedstock. The domestic crushing capacity did not keep up with the increase in biodiesel production. Also, phytosanitary reasons[1] limit the increase in rapeseed area and Germany had to import rapeseed or rapeseed oil to meet the demand from the biodiesel industry. As a result, from 2002 to 2006 Germany's net imports of rapeseed increased from 304,200 MT to 1.3 million MT. In addition, Germany converted from a 844,000 MT rapeseed oil net exporter to a 832,000 MT net importer. More specifically:

- rapeseed imports increased from 1.2 million MT to 1.6 million MT
- rapeseed exports decreased from 920,000 MT to 303,900 MT
- rapeseed oil imports increased from 115,000 MT to 1.3 million MT
- rapeseed oil exports decreased from 960,00 MT to 450,000 MT
- domestic rapeseed oil production increased from 960,000 MT to 2.6 million MT

For CY 2006, domestic rapeseed oil production and net imports totaled 3.4 million MT. Food use is estimated at 650,000 MT and non-fuel industrial use at 300,000 MT, leaving 2.4 million MT for biofuel use.

The import of cheap biodiesel could have a significant impact on the German rapeseed oil PSD. Therefore, the effect that B99 has on the German biodiesel price should be watched closely over the coming months. If cheap B99 imports should reduce the biodiesel market price in Germany to an extent that domestic biodiesel production becomes uneconomic, the rapeseed oil that would normally be used for biodiesel production in Germany will have to

[1] In order to avoid certain fungal diseases such as *Sclerotinia sclerotiorum*, *Phoma lingam,* and *Plasmodiophora brassicae,* rapeseed should not be planted on the same piece of land more often than once every four years.

find other uses. This could result in a sharp drop of rapeseed oil imports and a sharp increase in rapeseed oil exports. The majority of the excess rapeseed oil would likely be exported to other EU member states, especially those that have recently introduced new biodiesel mandates and/or increased their biodiesel production capacity. However, a significant amount could also be exported to the U.S. for biodiesel production.

Chart: Development of Rapeseed Oil availability in Germany from 2000 to 2006