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Poland

Bio-Fuels

Biofuel Update

2007

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Report Highlights:

The Polish government recently announced additional announced additional financial incentives for the biofuel industry, that are expected to stimulate biofuel production that has lagged expectations, since the government first announced incentives earlier in the year. The government also established mandatory use goals that meet EU recommendations.

Includes PSD Changes: No
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Government Biofuel Support Program

On July 24, 2007, the Polish government approved additional benefits for biofuels, under its new biofuel support program for 2007-2014. In addition to excise tax benefits announced earlier (see GAIN report PL 7028), a new income tax break and promotional assistance for biofuel use were added. This is the second time the government has increased support for the biofuel industry, after earlier support failed to stimulate production and use. A month earlier, the government mandated biofuel use goals of 3.45 percent of total transportation fuel use by 2008, rising to 7.1 percent by 2013.

The new exemption will permit biofuel producers to deduct from their income tax, 19 percent of the difference between the cost of producing biofuels and producing crude oil-based fuels. According to government officials, the tax exemption will cost the Polish treasury PLN 120 million in 2007 and PLN 240 million in 2008. The exemption requires EU approval, as does the excise tax benefit announced in May 2007. Details about assistance to promote biofuel use will be announced later.

National Biofuel Goals

At the end of June, the government published a regulation establishing annual, mandatory "National Biofuel Goal Indicators" through 2013. They are: 3.45 percent (energy equivalent basis) of total transportation fuel use in 2008, 4.60 percent in 2009, 5.75 percent in 2010, 6.20 percent in 2011, 6.65 percent in 2012, and 7.10 percent in 2013. If these goals are met, Poland also would meet the biofuel use goals established by the EU.

Industry Reaction and Impact

Polish biofuel industry representatives welcomed the additional incentives, but expressed concern about EU approval, including the time it will take. In reply, a ministry of finance representative opined that the EU should approve the support within three months of reception of Poland's request. It is not clear when the government will submit its request, but it is expected to be soon, due to growing pressure from the industry.

The additional tax incentive has already led to greater biofuel production. Industry representatives believe this trend will continue. Anticipating the government's announcement, Rafineria Trzebinia, a major local biofuel producer, resumed production of B20 (a 20 percent biodiesel blend). In January 2007, Trzebinia suspended all biofuel production, in response to the government's first incentive package. It resumed production of B100, after the government further reduced the excise tax on biofuels in late May. On July 19, the Lotos Company confirmed that it would continue construction of its new biofuel production facilities in Czechowice. Scheduled to be finished in March 2008, the facilities will have an annual production capacity of 100,000 MT of esters. Poland is expected to have a total biofuel production capacity of about 400,000 MT by the end of 2008.

Impact on Grain Production and Prices

If Poland hopes to meet its biofuel goals with domestic crop, rapeseed production will need to increase significantly. One estimate calls for over a 50 percent increase in production, to 2.9 million metric tons (MMT) by 2010, from about 1.9-2.0 MMT in 2007. This estimate assumes about 55 percent or more of production will be used to produce biodiesel. In addition, there may be continued strong demand for local rapeseed from Germany and other neighboring countries (Poland shares borders with seven countries.), which would mean less for Polish refineries.

Despite the current forecast of a record crop, procurement prices for rapeseed are rather high as a result of increased demand from the biofuel industry. Early in the season, there was speculation the procurement price might be as low as PLN 600 per MT (US\$ 214) because of a record crop and uncertain demand from the biofuel industry. Currently, the average rapeseed price is PLN 928 (US\$ 331), according to the agriculture ministry, and between PLN 1,015 to PLN 820 (US\$ 363 - 293), according to the Rapeseed Producers Association, depending the purchasing company and location.

The supply of grains for ethanol production is less of a concern. According to one estimate, in 2010, 1.4 MMT of grains would be required to meet ethanol production demands, rising to 1.7 MMT in 2013.