



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - Public distribution

Date: 9/18/2007

GAIN Report Number: SW7014

Sweden

Bio-Fuels

Sweden Plans to Abolish Ethanol Duty

2007

Approved by:

Steve Huete
U.S. Embassy

Prepared by:

Bettina Dahlbacka

Report Highlights:

The Swedish Prime Minister, Fredrik Reinfeldt, revealed on September 11, 2007 that the Swedish government intends to abolish the protective duty on ethanol that was introduced in Sweden in January 2006. The move is expected to take effect on January 1, 2009 at the latest. However, the measure first needs to be approved by the European Union.

Includes PSD Changes: No
Includes Trade Matrix: No
Trade Report
Stockholm [SW1]
[SW]

During a visit of Brazilian President Luiz Inacio Lula da Silva to Stockholm last week, Sweden and Brazil signed an agreement to cooperate on biofuel research and work together to create a market for biofuels. At a joint press conference on September 11, 2007, the Swedish Prime Minister Fredrik Reinfeldt revealed that the Swedish government intends to abolish the protective duty on ethanol. The move is expected to take effect on January 1, 2009 at the latest.

In January 2006, the Swedish government closed a loophole that allowed imports of ethanol at a reduced duty rate. Under this loophole, ethanol imported to reach the required 5% biofuel blend, could be classified under another tariff line by mixing the ethanol with 20% gasoline and thus be subject to a lower tariff. In addition, the imported ethanol also benefited from Swedish tax relief for biofuels. In Sweden, ethanol is used as low-blend (5%) in conventional gasoline and high-blend (85%) in flexi fuel vehicles. Brazil is a main exporter to Sweden of ethanol for the 5% blend and thus, particularly hit by the higher import tariffs. In 2006, the price of the Brazilian ethanol almost doubled and had to compete with European ethanol. If Sweden would re-open the old loophole, Brazil would again be able to export ethanol to Sweden at a lower tariff and still benefit from the Swedish tax relief. However, the measure first needs to be approved by the European Union.

The Swedish government states that Brazilian ethanol production from sugar cane is more environmentally friendly than many ways of producing ethanol in Sweden and the rest of the European Union, and that cheaper biofuel thus benefits both the climate and consumers. Sweden wants to be in the forefront in this area and is also working towards the termination of the European Union's common protection duties on ethanol. At the same time the Prime Minister admits that Swedish ethanol producers are not going to applaud these measures. "The cheaper alternatives will put pressure on the Swedish producers, but it takes several years to implement so they will have some time to adjust to them", said the Prime Minister.

Reportedly, many Swedish ethanol producers have expressed worries over the Swedish government's intentions and fear that this will be the end of the Swedish ethanol production. A majority of the planned ethanol production plants in Sweden have already been postponed due to the high grain prices. The price increase on grains this summer have made the investments unprofitable. Only in August, the price on grains increased by 39%. Sweden's largest ethanol producer Agroetanol has one grain-based ethanol plant in Norrköping and another plant under construction. With the new plant, Agroetanol's need for grains will increase to about 550,000 tons per year. Reportedly, Agroetanol is going ahead with the construction as planned, but is also looking for other raw material alternatives than wheat.