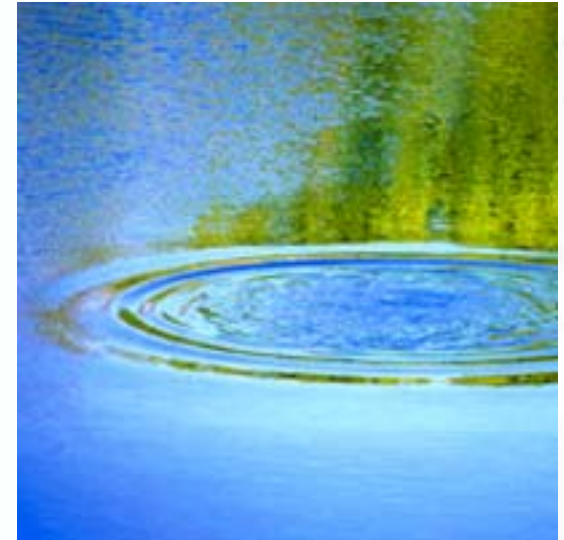


Greenenergy



Biofuels Support Mechanisms

LowC^{VP}, Climate Change Solutions Conference, 25th May 2005

Background

- **Greenergy is a Stakeholder as a;**
 - Petroleum fuels supplier
 - Biodiesel manufacturer
 - Biodiesel and bioethanol trader
 - Retailer (via Tesco shareholding)
 - Promoter of environmental transparency
 - Tax payer and corporate citizen

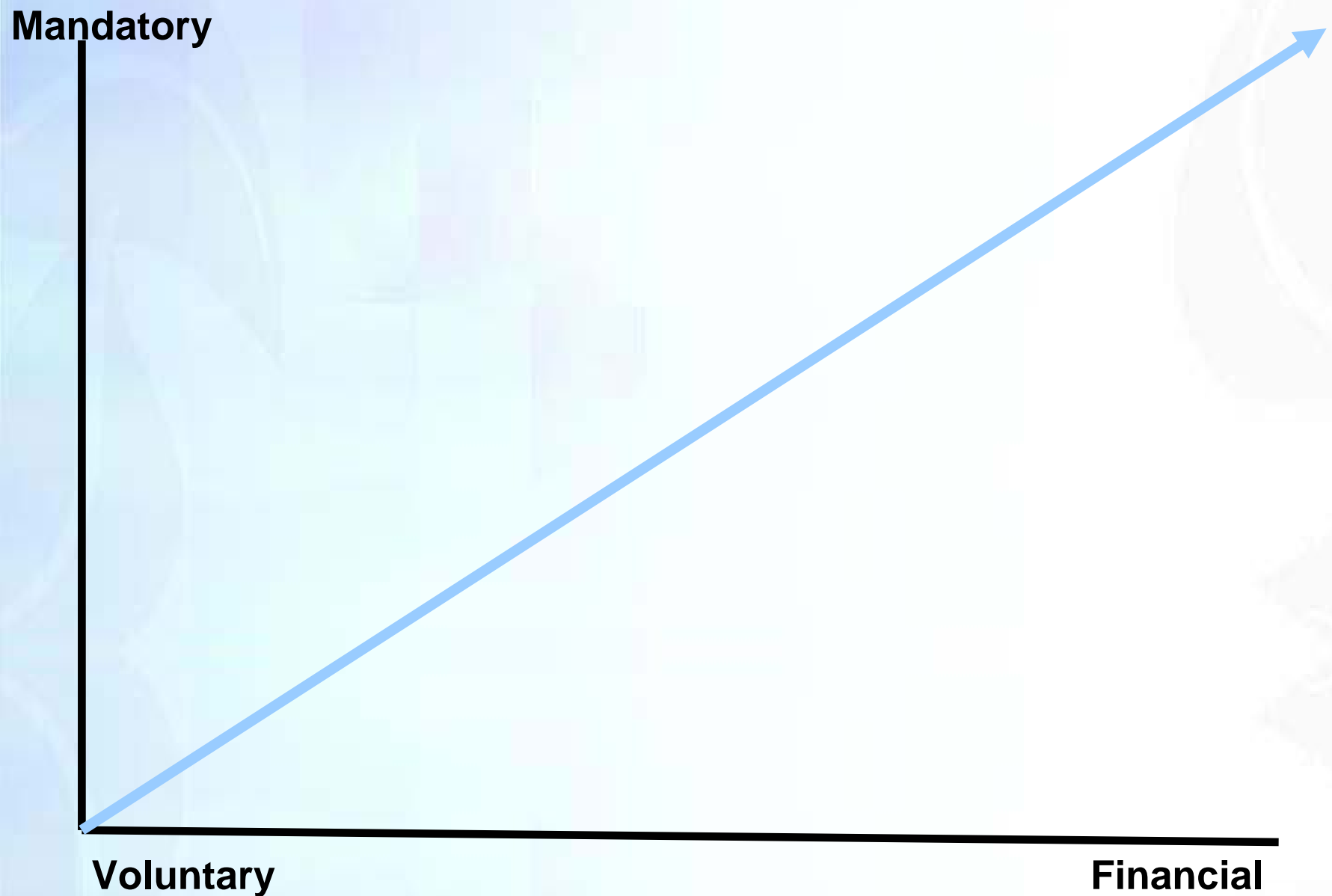
Already selling biofuels



Support mechanism aims;

- **Effective**
 - For producers and consumers
- **Practical**
 - Within existing business and fiscal systems
- **Fair**
 - Transparent and numeric
- **Market balancing**
 - To deal with production and demand variances
 - Recognition that fuel is internationally priced
- **Durable**
 - Robust to reasonable future unknowns
- **Avoid tick box mentality**
 - Need performance value continuity

Basic support Concepts



Basic support Concepts

Mandatory

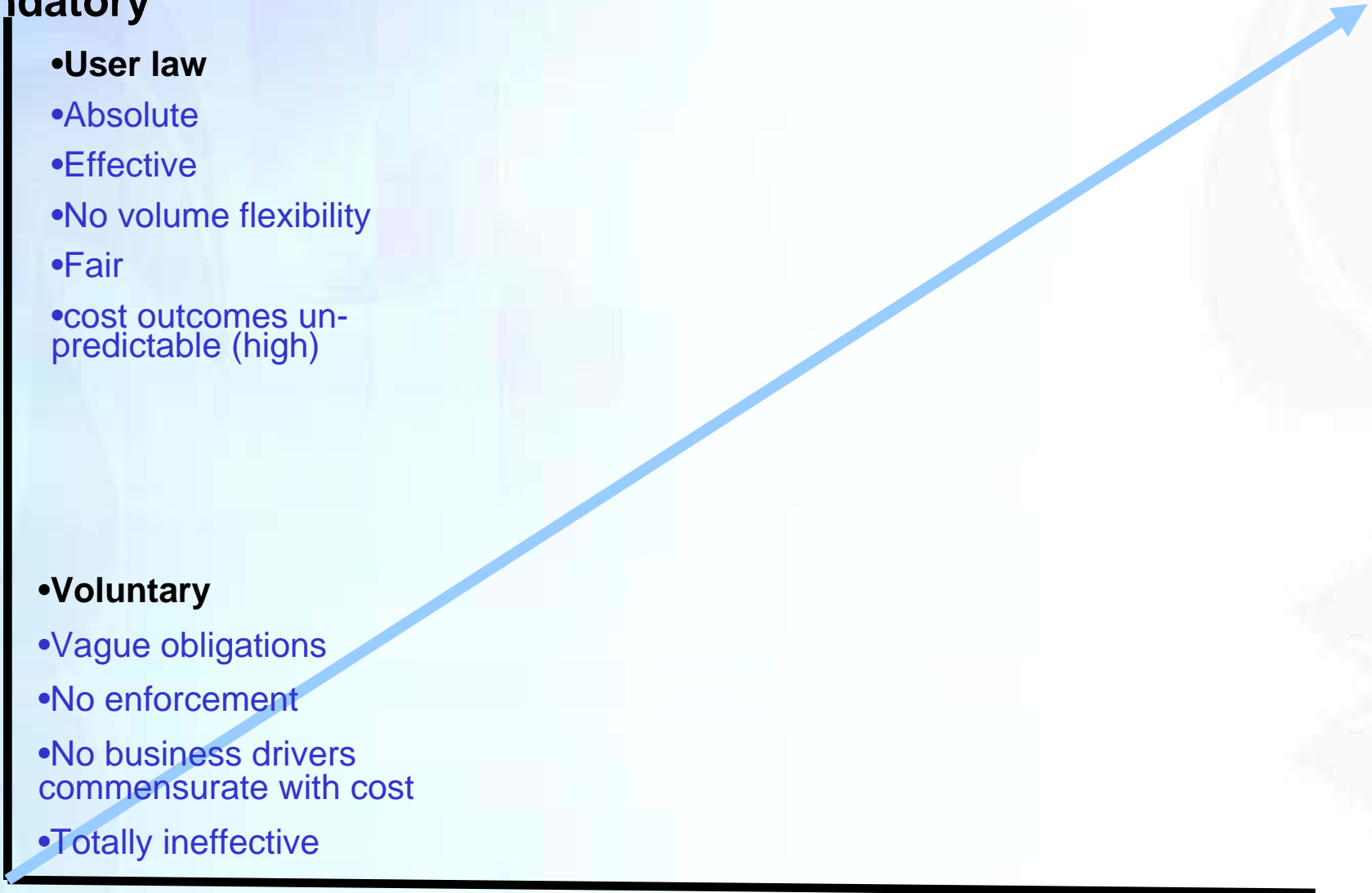
- **User law**
- Absolute
- Effective
- No volume flexibility
- Fair
- cost outcomes unpredictable (high)

- **Voluntary**

- Vague obligations
- No enforcement
- No business drivers commensurate with cost
- Totally ineffective

Voluntary

Financial



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- Effective
- No volume flexibility
- Fair
- cost outcomes unpredictable (high)

•RTFO (Fuels Obligation)

- Vague responsibilities
- Bureaucratic and opaque
- Effectiveness depends on good judgement of authorities
- Volume flexible,
- high up front cost to consumers

•Consumer duty Incentives

- Clear and unambiguous
- Effective and volume flexible
- Fair and transparent
- Lowest cost falls on tax payer not consumer (in reality the same person)

•Producer subsidies

- Confusing in application
- Bureaucratic
- Probably illegal under trade rules
- Nightmare

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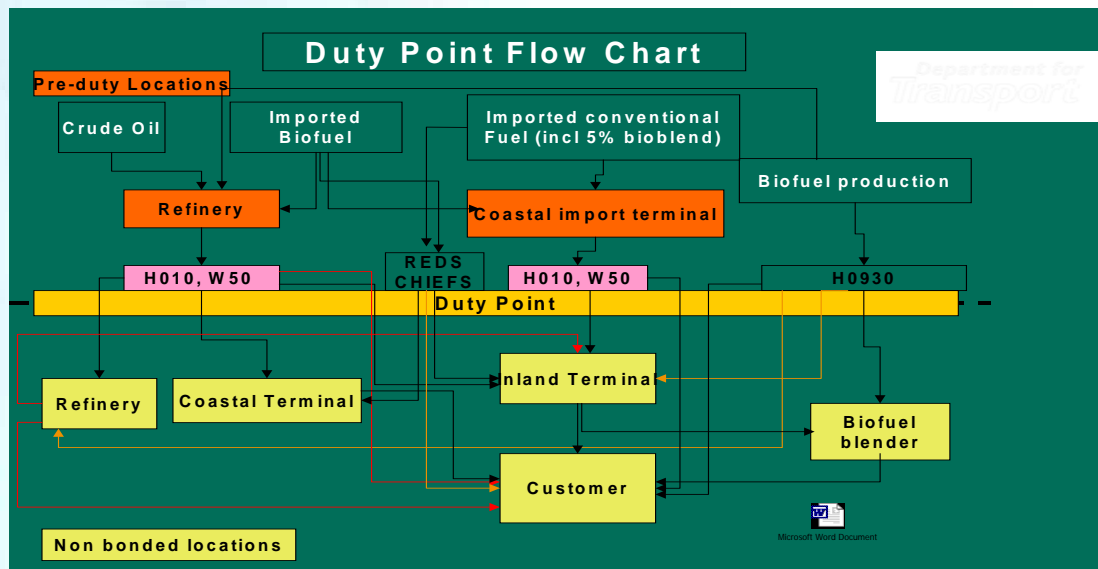
Financial

Practical choice

- Voluntary mechanisms have no role to play
 - All consumer actions are against personal benefit
 - This cannot be demonstrated in carbon
- Laws and Producer subsidies have outright failings
- Practical choice is between a Duty Incentive and RTFO
- RTFO appears to be “in fashion” and may happen
- But Greenergy prefers duty incentive as fair, low cost and predictable way forward
- Carbon certification can play an important role in any system

Duty Incentive vs RTFO

- **Compared to a Duty Incentive a RTFO is likely to;**
 - be complicated and participant specific
 - create price uncertainty and incentive volatility due to lack of price point visibility
 - lead to higher costs of execution



- **A successful RTFO requires the ongoing good judgement of Authorities**
 - This is Greenergy's biggest worry

Carbon certification

- Reporting of achieved carbon life cycle
- Can be applied to any support concept
- Import because;
 - Currently market oversupplied (esp. bioethanol)
 - Consequently only cheapest producers, which also tend to be most carbon efficient producers, supply
 - As support schemes increase, market will tighten, prices will rise and less carbon efficient producers will be able to supply degrading the marginal carbon balance
- Carbon Certification will ensure no degradation of carbon value of biofuels, and infact will lead to improvements

Issues that help

- Government communications to support commercial industry understanding
- Bio-diesel currently cheap option for industry but fear of new prevents take-up
- Retailer communications
- Carbon Certification puts biofuels on CSR map and achieves best value for money
- Stability and lack of new concepts such as RTFO



Thank you

