

## ePURE position on the EU - Mercosur Free Trade Agreement

ePURE, representing the European producers of renewable ethanol, believes that the agreed concession granted to Mercosur in the form of a Tariff Rate Quota (TRQ) for ethanol remains disproportional as:

- the EU ethanol market has not grown significantly to allow the absorption of such volumes which correspond to close to 12% of the entire market;
- it risks seriously disrupting the EU ethanol market for all end-uses;
- unlike the EU, Brazil has a remarkable ability to protect and support its industry and farmers;
- the agreement ignores that renewable ethanol is positive for Europe if produced domestically.

ePURE call for the 'chemical use' TRQ to be restricted to the 'processing' of ethanol into another product and not include simple mixtures. A wide interpretation of this quota to cover industrial uses of ethanol would otherwise give away over 55% of that European market segment. Strict end-uses clauses and sound management of the TRQ are needed to reduce the risks of disrupting the European market.

The Agreement in principle, reached on 28 June 2019 after almost 20 years of negotiations, foresees a Tariff Rate Quota (TRQ) of 650,000 tonnes of ethanol, split into **200,000 tonnes** for all uses (including fuel) with an in-quota rate 1/3 of most favoured nation (MFN) duty and **450,000 tonnes** for chemical uses, duty-free.

**1) The agreed TRQ remains disproportional as the EU ethanol market has not grown significantly in the past and its future growth is uncertain.**

The agreed quota is disproportionate and fails to specify what is intended for 'chemical use'. It could be intended to cover the whole industrial segment of the ethanol market which is 807,277 tonnes<sup>1</sup> or be restricted to the processing of ethanol into another product, in this case chemicals, which is a part of the industrial segment.

The original offer presented in 2004 (600,000 tonnes) was forecasted to represent just 5% of the EU's 2010 fuel ethanol market but the finally agreed 650,000 tonnes represents almost 12% of the whole market today. The situation is likely to deteriorate further post-2020 with the recently agreed RED II which limits the contribution of renewable ethanol to the renewable energy targets.

European ethanol refineries produced 5,081,600 tonnes, operating at 72% of their 7,066,600 installed capacities. Opening further the European market to 650,000 tonnes from Mercosur would further aggravate the situation, with ethanol refineries potentially operating at 63% of their installed capacities.

In parallel, the EU has increasingly opened its ethanol market to third countries: while EU energy and environmental policies have reduced the prospects for the European renewable ethanol market, EU trade policy has increasingly opened this shrinking market to third country producers, most of which enjoy strong government support and operate in favourable market conditions. As a result, over 55% of EU ethanol imports in 2018 entered duty free or at reduced rates<sup>2</sup>.

Offering 12% of the European market for a 'sensitive product' is extremely unusual, and the Commission has ignored the call by several Member States to not increase its offer on these.<sup>3</sup>

<sup>1</sup> [EU ethyl alcohol balance sheet](#), European Commission, 2019

<sup>2</sup> Source Eurostat. Note that tariffs with Costa Rica, Peru, Bolivia and Guatemala have been completely liberalised through FTAs. Pakistan has duty free access to the EU under GSP+.

<sup>3</sup> Joint [letter](#) from France, Poland, Ireland and Belgium to President Juncker, June 2019.



## 2) The 'chemical use' TRQ risks seriously disrupting the EU ethanol market for all end-uses.

Even marginal volumes of duty-free imports have a disproportionately large impact on the profitability of the entire EU ethanol industry regardless of the end-use. No barriers exist between the different market segments. Any volume spilled in one segment would displace volumes in the other. In the absence of market growth in the EU, such a quota, given its devastating impact on the EU industry, would undermine supply security, thereby increasing volatility on the EU market. Moreover, 450,000 tonnes for chemical use would exceed the entire volume used in this segment.

A wide interpretation of what constitutes 'chemical use' to cover all 'industrial uses' would not be aligned with the Commission's own classification of the ethanol market segments<sup>4</sup> and would give away over 55% of the 807,277 tonnes industrial market<sup>5</sup>.

For these reasons a strict interpretation of end use for the 450,000 tonnes duty free TRQ is needed. The 'chemical use' TRQ should be restricted to the 'processing' of ethanol into another product (in this case chemicals), and not refer to the whole industrial segment. Simple blending of ethanol with another product should therefore be excluded (e.g. ethanol for screen wash). Annexed are concrete proposals for the EU's management of this sub-quota in order to minimise its disruptive effects on the European ethanol market.

## 3) Unlike the EU, Brazil sees merits in protecting and supporting its industry and farmers.

Brazil is the world's second largest producer and exporter of ethanol, with decades of stable policies to support its growing domestic industry, which also supports the profitability of its sugar sector. Despite its leading positions, Brazil does not hesitate to take measures to promote and defend the interests of its ethanol and sugar producers.

- To protect its domestic ethanol producers, Brazil decided in August 2017 to re-introduce a 20% import tariff for ethanol imports exceeding a duty-free quota of 473,000 tonnes per year or 118,350 tonnes per quarter. Thus, Brazil is reducing its duty-free imports to just 2% of its 21.6 million tonnes ethanol market.
- In contrast, the EU's concession for a 650,000 tonnes TRQ would represent close to 12% of the EU's 5.6 million tonnes ethanol market for all end-uses. The EU should defend its own industry with the same level of political resolve as Brazil.

## 4) Renewable ethanol is positive for Europe if produced domestically.

The negative impact of a disproportional concession on ethanol to Mercosur will be felt beyond the European renewable ethanol industry, with European agriculture, notably the farming and livestock sector also being disadvantaged.

- **Outlets for EU farmers:** Domestic ethanol production opens new agricultural commodity markets for European farmers selling to nearby biorefineries, creating secure livelihoods in rural areas. This supports food production in the EU.
- **Managing commodity markets:** A strong domestic ethanol industry enables more effective management of cereal and sugar commodity markets, providing greater food security for consumers and farmers, which in turn leads to increased investments and increased sustainable productivity.
- **Reducing the EU protein deficit:** Domestic biofuels production generates valuable co-products, notably for the livestock sector, which allows the EU to decrease its protein deficit by substantially reducing its reliance on soy imports from the Americas.

<sup>4</sup> European Commission, 2019 EU ethyl alcohol balance sheet Ibid.

<sup>5</sup> Ibid

## Annex – Proposed definition and management of the chemical use TRQ

For the definition and management of the Tariff Rate Quota of the 450,000 tonnes of duty free ethanol for chemical use, ePURE advocates the quota to be restricted to the ‘processing’ of ethanol into another product (in this case chemicals), and that simple blending of ethanol with another product is excluded (e.g. ethanol for screen wash).

This would be fully aligned with the European Commission’s declared intention to support ‘*the European bioplastics and biochemical industry, which is currently struggling to access because of lack of access to ethanol, the main input for production, at a competitive price*’.<sup>6</sup>

- **A positive list of the end products** for which ethanol is used as processing feedstock (including biobased products such as bioplastics and biochemicals) should be established. Products covered fall under Chapter 29 of the Combined Nomenclature, ‘Organic Chemicals’ and include the following codes:
  - 2901 21 00 ethylene
  - 2912 12 00 Ethanal (acetaldehyde)
  - 2915 31 00 ethyl acetate
  - 2916 12 00 90 Esters of acrylic acid- Other
  - 2921 19 50 Diethylamine and its salts
  - 2921 19 99 - Amine-function compounds – Other - - Other
  - 2928 00 90 Organic derivatives of hydrazine or of hydroxylamine - Other
- In addition, **specific exclusions should be listed**, related to the use of ethanol for fuel applications under the above mentioned Chapter 29, as well as simple mixtures under Chapter 38 which are not innovative biobased chemicals. These include the following CN Codes:
  - 2909 19 10: Ethyl tert-butyl ether, known as ETBE, which is commonly used as an oxygenate additive in petrol and is an important market for EU fuel ethanol producers
  - 3814: Organic composite solvents and thinners, not elsewhere specified or included; prepared paint or varnish removers
  - 3820: Anti-freezing preparations and prepared de-icing fluids
  - 3824: Prepared binders for foundry moulds or cores; chemical products and preparations of the chemical or allied industries (including those consisting of mixtures of natural products), not elsewhere specified or included; (a code also used for high ethanol / petrol blend);

**A sound management of the TRQ should be put in place that would ensure strict respect of the end use of the quota and minimise disruptions on the European ethanol market:**

- **Close monitoring of the end-use of ethanol imports under such a quota:**
  - **Enforcing strict end-use customs control.** There is no natural distinction between ethanol for different end-uses. The alcohol molecule always remains the same regardless of the end-use, the raw material used or even whether it is bio-based or fossil-based alcohol. The main differences are the water content and the impurities, which can be removed through rectification.
  - **Restricting volumes to hydrous ethanol:** The chemical industry uses hydrous ethanol to produce biobased chemicals. Hydrous ethanol contains a higher water content than anhydrous ethanol, which is used in biofuels. While it is only a matter of cost to convert hydrous ethanol to anhydrous, limiting a biochemical quota to hydrous ethanol is justified on technical grounds and would make it easier to police the imports for end-use purposes.
  - Access to the specific ‘chemical’ quota should be subject to **the granting of licences and authorised volumes should be limited** to the volumes required to produce the ‘chemical’ for which the licence has been granted.
- **Split the quotas in 4 equal quarters in time**, to minimise disruptions on the European market.

<sup>6</sup> [Mercosur Factsheet – Agriculture](#), European Commission, 2019