



D1 Oils plc

Response to the Consultation on the Draft Renewable Transport Fuels Obligations Order 2007

17 May, 2007

Introduction to D1 Oils plc

D1 Oils plc is a UK-based global producer of biodiesel. We are building a global supply chain and network that is sustainable and delivers value from 'earth-to-engine'. Our operations cover agronomy, refining and trading. We are pioneering the science, planting and production of inedible vegetable oils; we design, build, own, operate and market biodiesel refineries; and we source, transport and trade seeds and seedlings, seedcake, crude vegetable oils and biodiesel.

D1 Oils believes that non-food, alternative oils offer the best raw materials for the production of biodiesel. We should not rely solely on traditional edible vegetable oils as biodiesel feedstocks. Edible oils are an important food source and require good arable land, which is in increasingly short supply particularly in developing countries. Rather we should develop alternative biodiesel feedstocks from plants, shrubs and trees producing inedible vegetable oils that will not compete with food crops for available land. These oil crops typically grow on a wider range of soil types and therefore need not displace food crops. Our long-term strategy is to grow sustainable, inedible oil feedstocks in developing countries and to export a portion of the crude vegetable oil produced to Europe to use for biodiesel production. We believe that the long-term prices of inedible oils will track the price of crude oil.

Agronomy

D1 Oils has identified *Jatropha curcas*, a tropical and sub-tropical oilseed tree as its feedstock of choice. *Jatropha*, which originated in Central America, grows in a band around the globe between 30 degrees above and below the equator, including Central and South America, Sub-Saharan Africa, the Indian subcontinent and South East Asia. Under optimum conditions, selected *jatropha* seeds can yield up to 40% oil content. *Jatropha* trees reach maturity after five to six years, and have a productive lifespan of over 30 years. The extracted oil has very good compositional properties, allowing it to be refined into high-quality biodiesel that meets the European EN14214 biodiesel quality standard.

Crude *jatropha* oil is inedible and its price is not distorted by competing food uses. Most importantly, *jatropha* is environmentally elastic, with an ability to tolerate a wide range of climates and soil conditions, including marginal and waste land and land that is sub-optimal for food production. *Jatropha* does not thrive in wetter conditions that are typical of rainforest. *Jatropha* planting will not therefore compete with crops for agricultural land or displace rainforest. We believe, based on existing *jatropha* planting in different areas of the world, that yields from uncultivated varieties of *jatropha* can reach up to 1.7 tonnes per hectare. This already compares favourably with yields from soya (around 0.5 tonnes per hectare) and rapeseed (around 1.5 tonnes per hectare). Up to 31 March 2007, D1 has planted or obtained rights to offtake from a total of 156,741 hectares of *jatropha* worldwide, with planting concentrated in Southern Africa,

India and South East Asia. This planting has been undertaken to date with uncultivated varieties.

Our plant science programme has gathered a wide range of jatropha material. The programme has started a global commercial breeding and product placement trial network for this crop. We have now collected more than 200 accessions of jatropha from three different continents and over twenty countries. Using field and laboratory data from this material, we have established a breeding process and global trials network to identify which individual jatropha cultivars are best adapted to the different cultivation zones. The first commercial outcome of the plant science programme is our 'E1' elite seed material, selected for higher yield and good biodiesel profile. We expect seed of the first generations of selected varieties will deliver oil yields of up to 2.7 tonnes per hectare under properly managed conditions when trees attain maturity. E1 seed multiplication is continuing in all three regions. We expect to be able to plant 50,000 hectares with this material in 2008.

D1 Oils is committed to enabling developing countries to benefit from growing energy crops such as jatropha for the production of biodiesel. Developing countries have millions of hectares of land, currently unused, marginal, waste or degraded, that could be suitable for growing jatropha. We believe that jatropha production has the potential to create significant employment in developing countries.

Refining and trading

D1 Oils has developed its own biodiesel refinery technology in the UK. We commissioned our first refineries in 2006 and now have 42,000 tonnes of refining capacity on Teesside. We are building new capacity during 2007 at Middlesbrough and at our new site at Bromborough on Merseyside. We are currently operating our refineries on soya oil. Our largest offtake agreement is with Petroplus, an independent fuel refiner and distributor. All development and commissioning work was and continues to be UK-based. We expect the first modest volumes of jatropha oil to be delivered for refining in the UK in 2008.

Part 1: detailed design of the RTFO

Question 1: is the definition of an obligated supplier appropriate? Are the compliance costs estimated in the attached Partial Regulatory Impact Assessment broadly accurate?

We agree that the obligation should fall on refiners, importers and any other parties who supply fossil fuel based road transport fuels. The system adopted should have the advantages of simplicity and reduced levels of bureaucracy, particularly for retailers.

However, D1 Oils shares the concerns of the Renewable Energy Association (REA) and the Environmental Industries Commission (EIC) that fixing the Obligation upstream at the point at which the fuel crosses the fuel duty point will shift the Obligation away from the consumer interface at the forecourt. This effectively shifts the compliance burden away from transport fuels retailers for whom the reputation risks surrounding compliance are the greatest. This may diminish pressures to move towards better carbon and sustainability standards. We would support the REA and EIC preference for the so-called option A, which follows European practice in putting the onus of Obligation on the final suppliers.

We are currently assessing the costs of compliance.

Question 2: is 450,000 litres an appropriate minimum threshold?

D1 Oils believes that this is an acceptable level of *de minimis* volume for the obligation.

Question 3: is it appropriate to calculate the level of the obligation as a percentage of obligated suppliers' fossil fuel sales in this way, despite the fact that this will make it a more stretching target?

Given the importance of reducing carbon emissions from transport, the calculation of the level of the obligation as a percentage of fossil fuel sales made by an obligated party is an appropriate means to enforce the use of biofuels blends. An obligation based on fossil fuels sales is readily measurable and enforceable, and demonstrates the potential for carbon saving, particularly to the consumer, at the point of delivery of the fuel on the forecourt. A measurable target of this type offers clear measures to investors in the industry. Setting the obligation on fossil fuel sales only will not penalize producers like D1 who may produce and sell biofuels directly to customers, particularly in the road haulage sector.

The setting of the obligation at 5.2632%, above the 5% level permitted under the current fuel standards for petrol and diesel, will make it more difficult for suppliers to meet their obligation only from retail sales without breaching fuel standards. This should lead obligated suppliers to supply a slightly lower percentage of biofuels in retail gasoline and diesel, thereby forcing them to develop high blend biofuels products or to purchase certificates from non-obligated suppliers or suppliers with a surplus. D1 Oils supports the development of a high blend biofuels market, and would seek to supply and develop that market.

However, we support the view of the REA that the 'headroom' provided by 0.2632% may be a limited window for the development of a high-blend market. The EU Biofuels Directive (2003) set a target for 2010 of 5.75% by energy content specifically to encourage the use of high blends. We support the REA in calling for further steps to be taken to ensure that this market is developed. (See answer to Question 25.)

Question 4: will setting the target in this way provide increased liquidity in the market for RTF certificates?

To achieve its objectives, the RTFO requires an open and liquid market in RTF certificates in which obligated parties and third parties are encouraged to participate. A transparent market is fundamental to realizing market participation and maximizing liquidity.

However, provision must be made for the Administrator to publish information, updated on a monthly basis, detailing the scale of obligated parties' obligations, and the number of Renewable Transport Fuel Certificates (RTFCs) issued, redeemed and surrendered.

The requirement for obligated parties to meet a 5% commitment by 2010, coupled with the current incentives for non-obligated parties to produce biofuels, will encourage a market for RTFCs. However, given that the levels of obligation remain relatively low, it is by no means assured that the market will be dynamic and profitable. The risk remains that the market will be a compliance trade only.

Question 5: is it appropriate to exclude sales of road fuel gases from the calculation of suppliers' obligations?

We support the REA view that this is an appropriate exclusion.

Question 6: should the RTFO have an end-date defined in the RTFO Order, and if so what should it be?

D1 Oils is content that there should be no end-date specified in the Order. However, we support the REA and EIC suggestions that the Order should either contain a specified notice period of a minimum of, for example, 10 years, if it is intended that the RTFO scheme should be brought to an end, or a confirmation from the Government that the Obligation will not end or be rendered ineffective, for example by removal of the buy-out, before a certain point, say 2020.

Question 7: does the suggested approach to eligible fuels provide a proper framework for identifying those fuels which should count as renewable fuels for the purposes of the RTFO?

The definition of biodiesel and bioethanol as defined under the Hydrocarbon Oils Duties Act of 1979 remains adequate. RTFCs should only be issued to biofuels meeting recognised quality standards. It is crucial that the reputation of biofuels is protected to maintain consumer confidence in biodiesel and bioethanol products.

We would urge the Government to ensure that biodiesel standards for the EU are kept under review to ensure that new, non-food oils, such as jatropha, are not discriminated against. The current EU biodiesel standard, EN 14214, was designed around the chemical composition of rapeseed oil as Europe's key biodiesel feedstock. The standard is currently under review to facilitate the inclusion of a wider range of feedstocks, such as soya, and we would urge the Government to engage with the Commission to ensure that this process of review continues. D1 Oils, as one of the developing global experts in jatropha science will gladly participate in the advice process to the EU should this be appropriate.

D1 Oils supports the view of the REA that should the Government wish to add other renewable road fuels to those currently eligible under the RTFO, it is essential that a full consultation is carried out prior to such inclusion.

Question 8: in advance of internationally agreed standards, is there more that can be done to help ensure that biofuels are sustainably sourced, for example through voluntary standards or agreements?

D1 Oils supports the development of comprehensive, verifiable and robust international environmental and social standards for biofuels. The creation of global, EU-wide and comparable national schemes will ensure that costs of compliance on this issue are equal across the Member States. There will be no net benefit on carbon and sustainability issues if higher standards in one country lead to the diversion of 'good' biofuels to that

market and 'bad' biofuels to markets with lower standards.

We support the Government's interim measure of developing a reporting framework for the RTFO under which transport fuel suppliers are required to report on the greenhouse gas balance and wider environmental impacts of the biofuels they produce and sell.

We urge the Government to make sure that rules put in place to measure sustainability are not contradictory to the ones to measure GHG emissions. In this respect factors taking into consideration previous land use and related GHG emission changes should be integrated in one balanced approach. Indeed D1 Oils believes that non food crops grown on land previously not utilised for food production and on land not under valuable ecosystems such as tropical rainforest, should be rewarded for their sustainability. D1 Oils believes the currently proposed system does not do this sufficiently.

D1 Oils also believes the system that is developed should be reviewed on a regular, e.g. three year, basis to allow the integration into biofuels business streams of feedstocks which offer new solutions for overall sustainability. Indeed, the science in these new crops is evolving rapidly and it would not be unwise to freeze the system around 'classical' feedstocks such as rapeseed, soybean and palmoil.

It is important, while this interim process is in development, for suppliers of new feedstocks, such as D1, to develop practices that will be the foundation for reporting standards for those crop in the future. D1's own Sustainable Oil Supply Programme (SOSP) for jatropha, which we are now rolling out with our planting partners worldwide, aims to gather data against a range of sustainability and carbon footprint criteria which we aim to make a model for the cultivation of jatropha as a new energy crop. We aim to share the findings from the SOSP with those third parties who are developing the Government's carbon and sustainability framework for RTFO.

We would also urge the government to do more to promote an understanding among the UK public of the carbon and sustainability criteria of the RTFO and what they aim to achieve. There has been widespread media coverage of the potential disadvantages of biofuels, which may have served to confuse consumers, particularly over the risks of increased use of palm oil leading to rainforest destruction, and may generate a negative public reaction to biofuels in general. The development and promotion by Government of an effective sustainability commitment for food oil production, coupled with support for development of alternative non-food oils, could address this potentially delicate issue.

Question 9: Would obligated suppliers or others wishing to acquire certificates consider these checks and balances to be sufficient to protect against any possible fraudulent claims of RTF certificates from the RTFO Administrator?

The current level of checks and balances envisaged under the obligation is appropriate. We support the requirement for all obligated suppliers and all those claiming certificates to submit an external auditor's statement confirming that the data on fuel sales submitted to the RTFO Administrator precisely matches the data on fuel sales submitted to HM Revenue and Customs.

Question 10: are the proposed arrangements for the recycling of the buy-out fund appropriate?

The proposals for recycling the buy-out fund are appropriate and offer a sufficient inducement for non-obligated suppliers, and suppliers who have supplied more than their quota, to surrender certificates for a share of the buy-out.

Recycling is central to the function of the RTFO. D1 Oils shares the concern of the EIC that the provision to remove this facility without explicit future legislation is dangerous, and if advanced will require significant additional provisions elsewhere in the legislation.

Question 11: what are likely to be the impacts of the RTFO on micro-scale biofuel producers, and how might any adverse impacts be mitigated?

We believe that current proposals for the obligation offer sufficient support for small, independent producers.

Question 12: are the proposed arrangements for civil penalties and for revocations appropriate?

D1 believes the measures proposed for penalties and revocations are appropriate.

Part 2

How the RTFO will develop over time

Question 13: Should the Government specify that, from a given date, credits under the RTFO should be linked to the GHG-saving of the fuel? If so, what arrangements should operate and how quickly should this requirement be introduced?

Recent reports by Stern and the Intergovernmental Panel on Climate Change have stressed that carbon savings should be valued and rewarded as a means to mitigate the impact of global warming. The RTFO obligation level therefore should be set in terms of carbon savings.

RTFO credits should be linked to the greenhouse gas (GHG)-saving of the fuel. A system of graduated credits that give greater rewards for greater savings would enhance this process and put real incentives into the scheme to reduce GHG emissions at every stage of the supply chain.

We believe that jatropha, which has the potential for significantly higher oil yields through further plant science research and improved crop management techniques, will be able to deliver lower carbon emissions across its lifecycle at least as great as those of food oil crops, and will be able to be grown sustainably in a range of tropical and sub-tropical locations around the world. The D1 Oils Sustainable Oil Supply Programme is designed to gather data that will begin to demonstrate the carbon footprint of the crop.

As we intend to import crude jatropha oil into the UK, the introduction of GHG incentives for RTFO credits will be a significant additional encouragement to reduce carbon emissions at every stage of the production and supply chain.

We support the view of the REA that, if GHG savings are to be expressed as a percentage of fossil fuel carbon emissions, the baseline fossil fuel numbers should be reviewed annually by the Administrator.

We also share the REA and EIC concerns that the specific levels of GHG saving expected for the first three years of the RTFO, which the REA calculates as 30% for the years 2008/9, could be set too high for some biofuel chains, particularly early innovators. Although we believe that biodiesel produced from *Jatropha curcas* grown in developing countries will deliver savings of this level, we are still in the process of developing the supply chain that will deliver jatropha oil to market. To make this supply chain as carbon-efficient as possible will require investment over a number of years.

We also support the REA's view that the graduated mechanism will need to

be worked up on the basis of robust and reliable data developed from the mandatory reporting of carbon and sustainability factors. We therefore concur with the REA's recommendation that a preliminary scheme be worked up by March 2009 with a decision on a final scheme by December 2009. Implementation of the linked scheme should be undertaken by the end of 2011 or as soon as possible thereafter. While we fully believe that alternative non-food oils such as jatropha will meet the necessary standards and deliver greater carbon savings in the longer term, it is crucial that the RTFO rules do not penalize new feedstocks while new supply chains are being established.

Government should signal an early date for linkage of certificates to reported performance.

Question 14: Should the Government specify that, from a given date, only those biofuels meeting certain minimum environmental and social standards should qualify for credits under the RTFO? If so, what standards should be applied, and from what date?

We strongly support the creation of strict minimum environmental and social standards to be met by all biofuels to qualify under the RTFO. We see a number of issues as crucial for inclusion in these standards, including:

- the previous use of land on which biofuels crops are grown
- the use of integrated pest management systems
- the conditions under which labour is employed in planting, maintaining, harvesting and processing the crop, particularly in developing countries
- the sustainable use of byproducts such as seedcake.

We believe that jatropha can be grown sustainably in a range of tropical and sub-tropical locations around the world. Jatropha is environmentally elastic and can grow on a range of soil types, particularly marginal land and land that is sub-optimal for food production. Jatropha cultivation need not therefore compete with food crops for good quality land. D1 is pioneering a number of farming models for jatropha ranging from small-scale contract farming to large scale managed plantations. We are also developing a range of farming practices, including intercropping jatropha with lower-grade food crops that will be appropriate for planting by individual farmers, communities, self-help groups and NGOs. Our Sustainable Oil Supply Programme will gather data against a range of sustainability criteria for jatropha, including the issues listed above. We aim to make this a model for the cultivation of the crop.

As in the case of carbon reporting, a graduated mechanism will need to be

worked up on the basis of robust and reliable data developed from the mandatory reporting of sustainability factors, and the Government should signal as early as possible a date for linkage of certificates to reported performance.

Question 15: Is the Government right to await the review of the relevant fuel quality standards before setting targets higher than 5%?

The Government should not wait for the review of the relevant fuel standards at the European level before proceeding to set higher targets. The impact of climate change is so significant that we must act decisively. Therefore, the Government should challenge the 5% blend limits by setting targets for blending in advance of this. In doing so, issues around fuel standards can be identified and the required technology innovations delivered in order to meet the obligation level.

In particular, the review of fuel standards in Europe is progressing too slowly. We are also concerned that vehicle and engine manufacturers are delaying the inclusion of blends higher than 5% in their current warranties for the European market. This is in marked contrast to the USA, where many of the same companies have already included blends of 10% and above in their warranties. We would welcome the Government putting pressure on the motor industry to increase its level of biofuel warranties.

The industry's position would be significantly strengthened by maintaining the planned incentive levels under the RTFO for longer than currently anticipated to demonstrate that the mechanism will provide a robust framework that can manage demand over the long term.

Furthermore, the longer the introduction of higher targets is delayed, the longer it will take for a high-blend market to be created. The creation of a higher blend market could be a significant lever to take overall use of biofuels by volume to above 5%. (See Question 25.)

Question 16: To what extent should Government support for biofuels be constrained by the impact on fuel prices at the pump?

The price impact on the consumer will be one of the key determinants of the uptake of biofuels for the UK transport market. It is therefore essential that biofuels producers operate as efficiently as possible and build their businesses to deliver low-cost, volume supplies of fuel that meet the necessary criteria of low carbon emissions and sustainable production. Given the rising price trends for food grade oils that are currently the staple materials for biodiesel, we believe that the production of alternative, non-food oils from crops such as jatropha offer the best means available in the near future to deliver low biofuel prices at the pump.

However, it is the Government's role to take a lead in these areas. Even though the increased use of biofuels may mean a marginal cost to the fuel buyer, the purpose of the RTFO is specifically to improve the carbon balance of road transport. While there may be a political sensitivity to the price at the pump, the real issue is not necessarily the absolute price of feedstocks, but rather the willingness of Government to convince the public that higher prices for fuels may be the necessary cost of policies to lower carbon emissions.

Question 17: Will the RTFO have an adverse impact on other sectors? To what extent should this constrain future Government support for biofuels?

We are already seeing the increasing demand for biofuels impacting food prices, particularly in developing countries. We believe that it is neither ethical nor economic to divert precious land and water resources, particularly in the developing world, from the production of food crops to biofuel crops. Government should therefore work closely with the industry to ensure that rigorous standards are introduced under the mechanism for sustainable production of fuel crops, particularly in terms of the diversion of land from food production in developing countries.

Question 18: Do you consider the above analysis of the options [for setting future RTFO targets] correct? Are there any other options that the Government should consider?

We support the introduction of an RTFO level set by volume of fossil-based transport fuel sales. This should be backed up by a minimum level of carbon and sustainability requirements. Option 6 in the table shown in Appendix B of the consultation should be the preferred approach. This may be enhanced by linking broader environmental and social standards to the number of certificates issued. The buy-out price may be different for carbon savings from transport compared to carbon savings from power generation or other sectors. However, this is a perfectly valid response, as the sectors have different constraints and boundaries.

Question 19: What are your views on the relative merits of the different ways in which future RTFO levels might be expressed?

The RTFO obligation level should be set in terms of carbon savings and sustainability of biofuel production in a balanced manner. If an obligated party can find more carbon efficient mechanisms then that should be rewarded.

In future, more challenging targets based upon energy content or carbon saving should be adopted. Targets would need to be monitored initially upon an adjusted volume basis, with adjustments altered based upon recorded energy

and carbon performance.

Question 20: Is the Government right to insist that robust carbon-saving and sustainability criteria are built into future EU-wide bio fuel targets and support mechanisms?

D1 Oils supports the development of comprehensive, verifiable and robust international environmental standards for biofuels, and would urge Government to promote the creation of such standards at EU level.

Data from IPCC and Stern shows that land use change is a major factor in increasing green-house-gas emissions and therefore, the carbon reporting must take this into account and reward on the basis for carbon savings. Land use change also has a large impact on environmental and social impacts.

Question 21: What should the level of the RTFO target be in future years (e.g. 2015 and 2020)? Should the level of ambition be maintained at the 2010/11 level, or increased?

As a supplier of biodiesel, D1 Oils would welcome higher targets and a longer enforcement period for the RTFO. However, we recognise that this can only be justified if the industry can demonstrate that existing and higher levels of biofuels blends can be supplied sustainably and at prices that do not impose an unreasonable burden on consumers.

The development of alternative, non-food crops and the demonstration of their improved carbon and sustainability profiles while delivering low-cost, volume supplies of feedstock, will, we believe, offer a justification for the introduction of higher blend obligations in the future.

However, although we would advocate the setting of higher targets, in particular to take the UK towards the EU mandatory target of 10% by energy content by 2020, we should ensure that by setting higher targets we do not drive demand for fuels that are less carbon efficient and less sustainable. The increase in targets should be undertaken with care as to the industry's ability to supply sustainably the demand that is created. We believe that alternative non-food vegetable oils offer the best means to meet future increased levels of obligation sustainably and with a low carbon footprint.

The Government should strive to ensure that the European Union's agreed binding target of 10% by energy content is met by 2020. However, this will require raising the UK's volume target so that it matches the target by energy content. The corresponding volume target should continue to be backed by robust carbon and sustainability criteria.

Given the early stage development of alternative, non-food oils, like

jatropha, D1 Oils believes that the current levels of the RTFO until 2010/11 are appropriate. However, we would like to see the Government make a commitment, should the carbon and sustainability carbon and sustainability requirements be met, to increase targets from the year 2015 and to consider a further increase in 2020. Given current knowledge and experience, we recognise that it would be difficult at this point to define a target percentage to be introduced on a certain date. We would therefore welcome a review of the current supply situation before 2010 as the obligation gets underway, and a further review of the potential to increase the obligation by 2012.

Question 22: When should the Government set targets for years beyond 2010/11?

Given the lead time for new investments in the biofuels sector, targets for the years beyond 2010/11 should be set as soon as possible. As recommended by the REA, the biofuels industry would prefer to know the target levels in 5-year blocks rather than the current 3-year time horizon.

Question 23: Is our approach to setting the level of the buy-out price a reasonable one? Does the 30 pence per litre “package” strike the right balance between encouraging the use of renewable transport fuels and protecting consumers? For how many years into the future should it be guaranteed?

The UK biofuels industry currently faces a challenge in the form of sustained high prices for the food-grade vegetable oils that are the principal raw material for the manufacture of biodiesel. The result is that, even with the current tax derogation of 20ppl, it is not profitable to produce biodiesel from rapeseed or soya oil, the most suitable feedstocks for refining in a North European climate.

As recommended by the REA, the mechanism for setting the buy-out price should be transparent, with clear information on the criteria that will be considered to trigger a buy-out price review. These criteria should include:

- Crude oil prices
- Raw material prices – in particular food grade crude vegetable oils
- Exchange rates

Given the current level of food-grade vegetable oil prices for example, we have advocated increasing the level of duty derogation and buy-out for 2010/11 and beyond from the proposed level of 30ppl to 35ppl. This would improve investor confidence for the long term in the face of the adverse conditions currently prevailing, and give greater security for refiners looking to expand UK capacity to meet future RTFO targets.

Furthermore, any level of buy-out price is more effective if recycled, due to the double effect of penalising buy-out and rewarding compliance. Recycling of the buyout is essential to the mechanism.

Question 24: Will rewarding different biofuels on the basis of their relative carbon saving performance be sufficient to bring these fuels onto the market? If not, in what other ways might the Government support the development and use of “advanced” renewable transport fuels?

Only rewarding biofuels on their carbon saving performance will encourage and tend to benefit crops such as soybean and palm, grown on prime land with high water utilization and competing for the food market segment. Further measures are needed to encourage the use of biofuel crops that can be grown on a wider range of soil types and do not compete with food and/or give significantly higher carbon savings per hectare. The government could even take specific measures to encourage these advanced biofuels.

We therefore support the EIC’s contention that mitigating in favour of production techniques that are estimated by Government to be ‘advanced’, while delivering no measurable benefits, is a mistake. The promise of second generation approaches should not become an excuse not to engage with existing technologies and therefore delay improving them.

Question 25: Should the Government consider providing additional support to encourage the use of high blend bio fuels?

D1 Oils supports the view of the REA that the RTFO as currently designed could act as a disincentive for the use of high-blend fuels. The only incentive for their development currently rests in the value of certificates. As the RTFO is currently configured, biofuels producers who supply fuel directly to this market, rather than working through oil companies and fuel distributors, will be forced to bear a greater risk over the future price of certificates. Furthermore, given that the levels of obligation remain relatively low and may not make the market in certificates dynamic and profitable. The risk remains that the market will be a compliance trade only and will not provide sufficient incentive for the introduction of high blends. As already noted in the answer to Question 3, the additional 0.2632% headroom on the 5% target, although welcome, may not be high enough to offer a significant market opportunity for higher blends.

D1 Oils believes there is a significant appetite for high blend ratios, possibly up to 100%, from UK companies and public bodies running large fleets of lorries, buses and other vehicles. D1 is keen to develop this market and is actively

working with road haulage companies in particular to identify the most efficient biodiesel blends. If encouraged, this sector could expand the total UK biofuels market substantially and deliver higher carbon savings.

A high blend market gives public visibility to the use of biofuels and no significant EU market has developed without a parallel effort to promote high blends (e.g. in Sweden, France and Germany).

The Government should encourage the use of high blend biofuels in the following ways:

- Set RTFO target levels that are higher than prevailing fuel specifications.
- Reward high-blend fuels on the the basis of their proportional carbon and sustainability benefits.
- Make greater use of the Alternative Fuels Framework to maintain the differential on the fuel duty rebate for high blend fuels. Given that the market will be relatively small compared to the passenger car market, the cost of the measure to Treasury would be lower.
- Provide a greater discount on company car tax for high-blend biofuel cars.
- Provide zero-rate Vehicle Excise Duty and relief from congestion charging for vehicles which are proved to run on high blends.

Additional conclusions

Role of the Administrator

The Department for Transport (DfT) has made it clear that, if they are successful in getting Parliamentary time to amend the Energy Act 2004, they will propose that the Administrator be set up as a Team within DfT rather than establishing a separate Non-Departmental Public Body (NDPB). D1 Oils supports the position of the REA that the Administrator, if established in this way, should be subject to regular consultation with an Advisory Board drawn from the stakeholder community and appointed in a transparent and consultative manner with particular reference to the biofuels industry. Should a separate NDPB be set up, the appointment of its Board should be carried out in a similar fashion, with input from the biofuels industry. In either case, adequate procedures must be set out for redress in the event of a mistake by the Administrator.

Role of an independent regulator

We believe that the UK should take a lead in establishing the regulatory environment to support the biofuels industry. The UK is already a leader in the regulation of utility businesses, for example OFGEM and OFWAT. The RTFO is a very promising development in this direction, and we believe it has the potential to be a model for the creation of similar systems across the EU.

However, we would urge the Government to consider in the long term establishing the RTFO on a similar basis to the regulated utilities, in particular uniting their regulation under the leadership of a single regulatory body. We do not believe that the current arrangements, whereby administrative control sits the Department for Transport (DfT) but decisions for the fiscal elements of the RTFO remain with Her Majesty's Treasury, offer sufficiently independent regulatory leadership. The establishment of an independent regulator in place of the current administrator would we believe contribute to the setting of clearer targets over a longer time horizon, and further promote a clear and transparent regulatory environment.

Greater forward transparency

Given the lead time for new investments in the biofuels sector, we would urge that targets for the years beyond 2010/11 should be set as soon as possible. We believe that a 5-year regulatory window is essential to encouraging business and investor confidence in the sector. The current 3-year time horizon is too short. We would like to see the Government make a commitment, should the carbon and sustainability be met, to increase targets from the year 2015 and to consider a further increase in 2020. The Government should strive to ensure that the European Union's agreed binding target of 10% by energy content is met by 2020. We would welcome a review of the current supply situation before 2010 as the obligation gets underway, and a further review of the potential to increase the obligation by 2012.

Greater role for high-blend biofuels

We would also urge that the setting of higher levels must facilitate the provision of high-blend biofuels. D1 Oils believes there is a significant appetite for high-blend ratios, possibly up to 100%, from UK companies and public bodies running large fleets of lorries, buses and other vehicles. D1 is keen to develop this market and is actively working with road haulage companies in particular to identify the most efficient biodiesel blends. If encouraged, this sector could expand the total UK biofuels market substantially and deliver higher carbon savings. A high blend market gives public visibility to the use of biofuels and no significant EU market has developed without a parallel effort to promote high blends (e.g. in Sweden, France and Germany).

Glidepath on sustainability data

We also recommend that a glidepath be established for carbon and sustainability reporting, so as not to set these necessary hurdles too high for some biofuel chains, particularly early innovators. To make supply chains as carbon-efficient and sustainable as possible will require investment over a number of years. We therefore support a graduated mechanism worked up on the basis of robust and reliable data developed from the mandatory reporting of carbon and sustainability factors. While we fully believe that alternative non-food oils such as jatropha will meet the necessary standards and deliver greater carbon savings in the longer term, it is crucial that the RTFO rules do not penalize new feedstocks while new supply chains are being established.

Tariff and trade barriers

Given that a major portion of the UK's biofuels needs will have to be imported, we urge the government to ensure that imported fuels that meet the necessary carbon and sustainability criteria, are not subject to prohibitive tariffs or other barriers.

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