

Biofuels in Southern Africa – political economy, trade and policy environment

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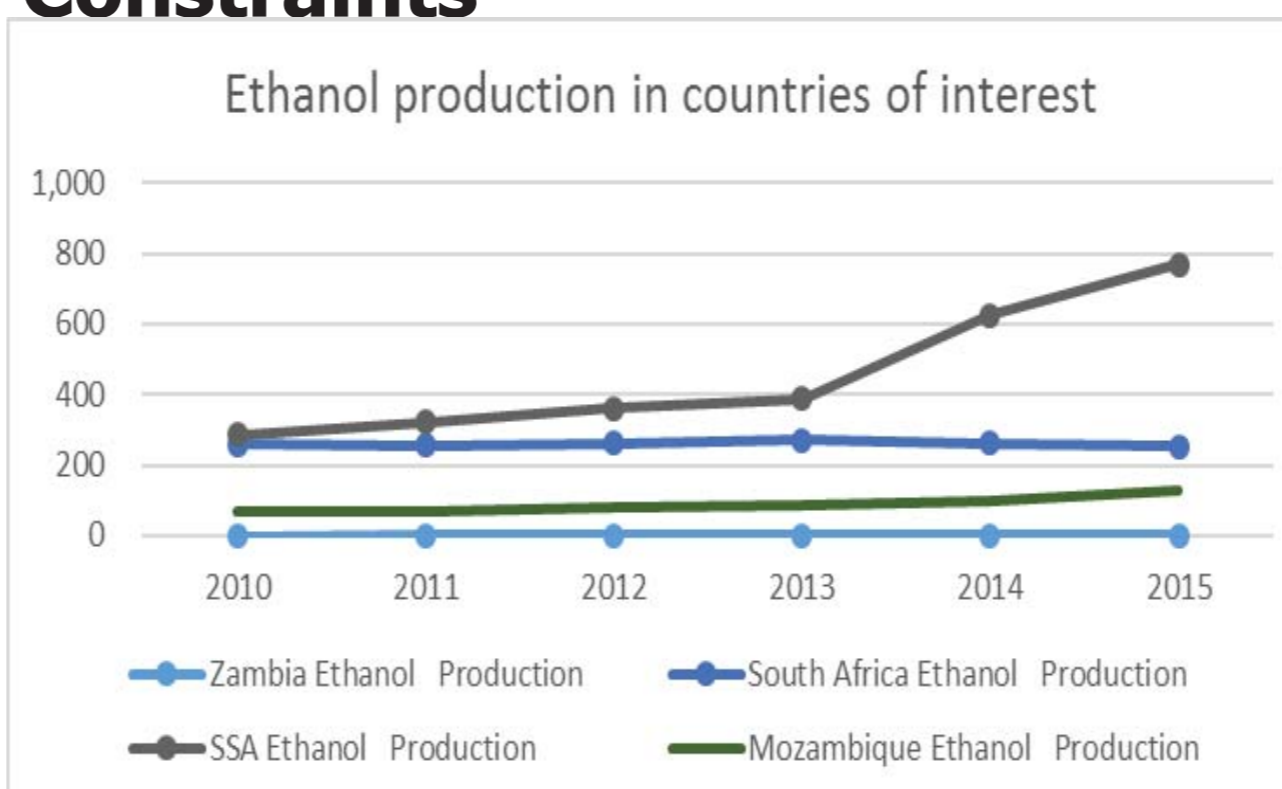
Introduction

- Longstanding interest in leveraging the perceived abundant land resources in Southern African countries to produce feedstocks for biofuels.
 - At national level, proponents have argued domestic production (less dependence on the imports of fossil fuels for the transport sector - save much needed foreign currency);
 - Potential to export to markets such as the EU under preferential market access conditions (not met);
 - Interest, led to a spate of new legislative and regulatory frameworks in several countries;
- Policy tools often used to introduce bioethanol within a national context

	Supply side policies	Demand side policies
Direct Incentives	<ul style="list-style-type: none"> - Direct production subsidies; - Tax Breaks; - Low cost financing 	<ul style="list-style-type: none"> - Blend mandate (E02 – E25); - Ethanol pumps in tank stations (E85-E100); - Information campaigns; - Public tendering; - Tax breaks; - Multiple counting towards mandates;
Indirect Incentives	<ul style="list-style-type: none"> - Training/ Capacity building; - Industrial/ R&D Support; - Subsidised Ethanol Stocks; - Loan guarantees; - Trade tariff regimes; 	<ul style="list-style-type: none"> - Carbon tax; - Green Vehicle rebates; - Preferential Parking; - Fuel Standards;

- Blending mandates form part of the policy framework to incentivise biofuels demand e.g. Malawi – E10 (1982); Moz – E10 (2012*); South Africa – E2 (2015*); Zambia – E10 (planned)

Regional Trends – Production, Policy and Trade & Constraints



The legislative developments to date have been insufficient to spur development of production and consumption as projected would happen a decade ago.

Production in Southern African countries of interest (South Africa, Zambia and Mozambique) has remained marginal

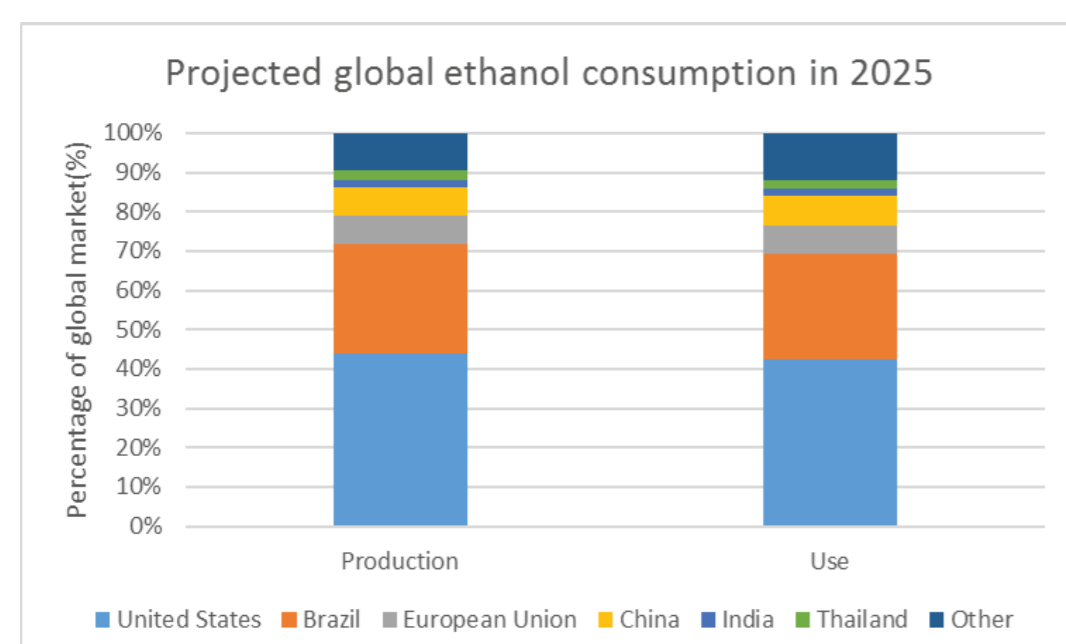
Regulatory Policy and Political Economy

Country	Legislation/ Policy Framework	Political Economy Issues/ reasons for low uptake
Mozambique	<ul style="list-style-type: none"> • National Policy and Strategy for Biofuels was adopted in 2009 (Resolution No. 22) 	<ul style="list-style-type: none"> • production and consumption in the fuel sector have yet to take off, with the only commercial success so far being the production of ethanol gel; • lack of economic viability of jatropha explains much of the failure of biodiesel production; • Getting access to titles in the wake of the 2011 financial crisis; • gaining access to titles (DUATs) that provided investors with security to invest further was a major hindrance; • difficulties in gaining access to land for cane production have been a hindrance
South Africa	<ul style="list-style-type: none"> • Biofuels Industrial Strategy, 2007 - production of biofuels amounting to 2% of the total road transport pool; • Biofuels Mandatory Blending Regulations, 2012 - expected to come into operation from 1 October 2015; • Biofuels Regulatory Framework is being developed by an inter-Departmental Biofuels Task Team (BTT) – to address sticking issues esp Subsidy mechanism 	<ul style="list-style-type: none"> • Electricity supply is at the core of South Africa's domestic energy priorities; -the DoE places emphasis on broadening electricity supply technologies to include gas and imports, as well as nuclear, biomass and renewable energy resources (wind, solar and hydro); • Current proposed subsidy has not spurred investor interest as it is deemed to low and was based on assumption of high oil prices (hence the BTT role); • Policy is inward looking aiming to rope in small scale farmers from previously disadvantaged groups and also to utilise fallow land under rain-fed conditions – re: Biofuels Feedstock Protocol (addressing food security concerns)
Zambia	<ul style="list-style-type: none"> • National Energy Policy (2008) – created standards for biofuels and in 2011 blending ratios (5% biodiesel; 10% bioethanol) 	<ul style="list-style-type: none"> • steps did not lead to the expansion of the industry and several of the earlier investors exited the sector. • the global financial crisis which constrained access to capital • the failure to reach projected levels of supply due to crops underperforming compared to expectations, and difficulty accessing land. • On the institutional and policy front, the industry expanded before legislation was in place, and • before 2014 there was no supply agreements in place between the government and the private sector

Objective & Methodology

- The objective is to examine recent trends in biofuels and linked global markets and political economy factors in the Southern Africa region, to understand incentives and constraints to expanding biofuel markets.
- We look to understand what are the factors that have constrained production and what scope exists to overcome these;

Global Trends



- US; Brazil and EU, main producers and consumers of biofuels (approximate combined share of 80%)

Trade Policy Issues

- WTO rules aim to promote free trade in goods and services – all countries are members and therefore subject to the binding rules;
- This creates competition for both export and domestic markets;
- Big producers like US and Brazil under competitive conditions may compete for the domestic markets in Southern Africa – need for infant industry protection measures in Southern African to make it competitive.
- Opportunity to promote a regional industry under preferential market access – SADC FTA
- Challenge for Southern Africa is that Biofuels not high on the agenda; (Electricity; Infrastructure & ICT);

Conclusion

- Beyond biofuels, the driver of political will is social pressure - severe poverty, low-levels of investment, poor infrastructure, health care, education and food security are high on the priority list for SADC governments;
- At the domestic level, there are currently unclear signals of commitment from governments to enforce biofuel mandates through either purchasing offtake agreements or requiring refineries to blend biofuels with fossil fuels;
- Reviving interest in biofuels at the regional level would likely require firmer interest from national governments;
- For investors, strong incentives are necessary to spur the previously high levels of interest in biofuels that have currently waned on the back of low oil prices

Acknowledgments

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