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

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Big Picture– biofuels in Southern Africa



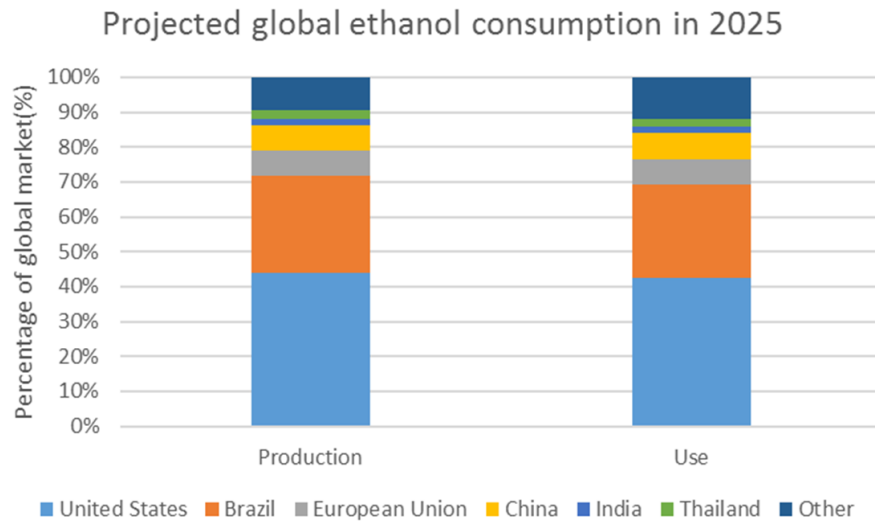
- Leverage abundant resources;
- Reduce dependency on imports;
- Potential to produce for export;
- Development of policy & regulatory frameworks;
- This coupled with incentives mechanism to spur supply & demand

Policy tools often used to introduce bioethanol

	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)

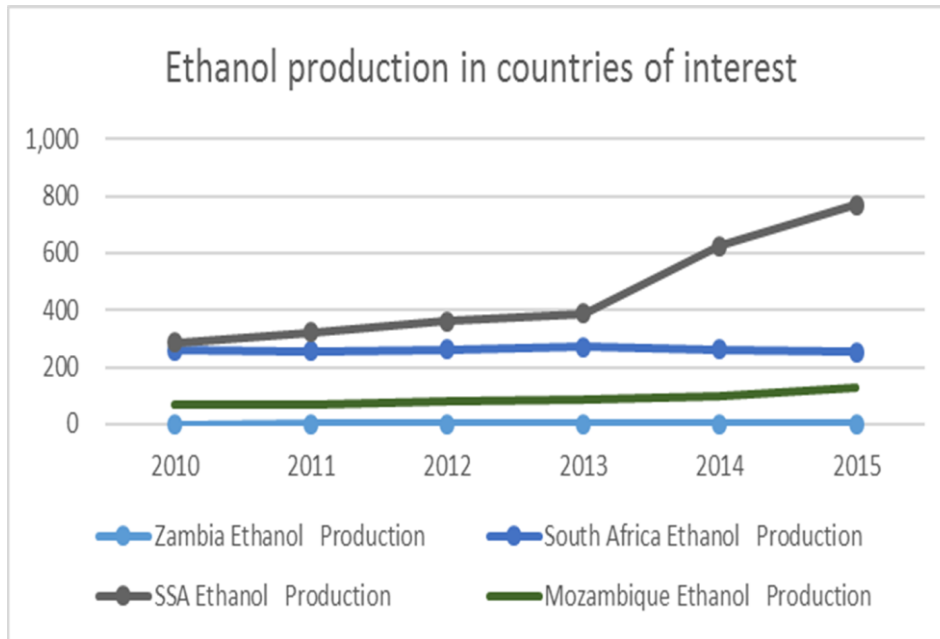
Global trends



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

- Global trade in bioethanol – expectations were that major exporters (US; Br; Arg) would supply EU mkt – but rulings in 2011 anti-dumping; CV duties – opportunity for SSA to supply;
- Concerns over sustainability of external supply – reforms which increased barriers into EU and thus limited profitability for e.g. SSA to export;
- Falling agric prices of feedstock made it for EU to produce; In 2014 –EU was 99%(bioethanol) & 97% (biodiesel) self sufficiency

Regional trends - Production



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

- Reasons for this include factors related to developments in global energy and commodity markets in general and biofuel markets in particular, and in domestic experiences of attempting to implement land-intensive feedstocks;

Regional trends – Policy & 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 finance 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

Regional trends – Trade Policy

- WTO Principles – (MFN; National Treatment) – competition from low cost producers;
- Incentives – treatment of subsidies; classification of biofuels under WTO;
- SADC level – no perceived restrictions to trade (both in feedstocks and biofuels) – potential for dvpt of regional industry; - SADC FTA;
- Challenge – biofuels not priority at SADC level although highlighted – electricity supply;
- Furthermore – weak institutions (no dispute settlement mechanism) – uncertainty for investors; and traders (NTBs)

In 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

