



Department
for Transport

Advanced Fuels Call for Evidence and Post-Implementation Review of the Renewable Transport Fuels Obligation: Government Response

April 2014

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1. Government Response

- 1.1 This document is the joint government response to the advanced fuels call for evidence and the consultation on the draft post-implementation review (PIR) of the Renewable Transport Fuels Obligation (RTFO). The Department for Transport would like to thank all those stakeholders who submitted comments.
- 1.2 The call for evidence sought views and data on the potential of advanced fuels and whether there was any need for additional government support. The PIR assessed the performance of the RTFO against original estimates and sought suggestions on how it could be improved. A summary of responses, and detailed government responses, are contained in the two summary documents.

Overview

- 1.3 The government believes that low-carbon fuels are critical to the future of the transport sector, and that some form of government support will be necessary to bring them to market. While electric vehicles will play a critical role in the shift to low-carbon transport, some parts of the transport sector, notably aviation, shipping and road freight, cannot easily be electrified. Advanced fuels are therefore key to the government's decarbonisation plans for transport.
- 1.4 The PIR noted some achievements of the RTFO thus far. Biofuel supply has moved from a niche activity to a normal business operation for all major UK suppliers of road fuel. Production capacity has increased significantly. Even when taking into account the indirect emissions from biofuel production (i.e. indirect land use change, ILUC), UK supplied biofuels are currently delivering an average of 60% less carbon emissions than equivalent fossil fuels. 99% of the biofuel supplied in year five of the obligation has been certified as sustainable. The double certification of waste-derived fuels has provided an effective incentive for such fuels.
- 1.5 Many respondents to both documents emphasised the need to provide policy certainty for low-carbon fuel suppliers. They say that the current European negotiations have paralysed investment in the sector. We acknowledge that it is difficult for the sector to develop further while this ambiguity continues. Investment in new production facilities and advanced technologies requires a degree of long-term certainty and confidence.
- 1.6 This is why the UK is pushing hard at European level to conclude these negotiations. We are looking for an outcome that delivers genuine environmental outcomes and a clear position for industry. We hope agreement can be reached before the end of the year.

- 1.7** Until discussions are concluded, we do not believe it would be beneficial to revise the current policy framework while it is unclear what the UK will be required to deliver under European targets. Any significant changes made now to the UK scheme might need to be reversed or amended at a later date. Therefore, the government does not intend to make significant changes to UK biofuel supply legislation until these negotiations have concluded. Nor do we intend to raise the current RTFO obligation level.
- 1.8** However, we are keen to end the current policy uncertainty as soon as possible. For this reason we will continue developing the policy options that were set out in the call for evidence, so that we are in a position to establish a new policy position as soon as we get clarity from Europe. We will engage with stakeholders in doing this, so that any policy options are robust and ready for implementation.
- 1.9** In addition, there are a number of improvements that we believe can be made without being impacted by the negotiations. We will consult on these changes later this year, with a view to bringing them in for April 2015.

Policy suggestions in response to consultations

- 1.10** The main policy suggestions made by stakeholders in response to the consultations were as follows :
- An additional support mechanism for advanced and more sustainable fuels.
 - Policy changes to provide more certainty to suppliers, such as a price floor for RTFO certificates or separate obligations for petrol and diesel substitutes.
 - Adding support for some fuels from fossil waste to the RTFO.
 - Support for low-carbon fuels in the shipping and aviation sectors.
- 1.11** We recognise the merits of these recommendations and will discuss them further with industry and other stakeholders. More in depth consideration of each of these changes is set out in each of the main summary documents.

Proposed legislation

- 1.12** Respondents also suggested a number of more limited changes to current support structures. We believe that some of these recommendations are worthwhile and can be made before wider agreement on European issues. Therefore we propose to consult later in the year on the following changes:
- Support gaseous fuels on the basis of energy content. Currently renewable fuels are supported on a volume/weight basis (per litre for liquids, per kilogram for gases). This acts as a disincentive to energy dense gaseous fuels such as biomethane. We propose to support gaseous fuels on the basis of their energy content, so that they are not relatively disadvantaged.

- Support synthetic fuels from renewable electricity. At present the RTFO only rewards fuels produced from organic material. Responses to the call for evidence noted the considerable potential of synthetic fuels produced from renewable electricity. The government is of the view that these fuels should be eligible for support. This would also allow renewable hydrogen from electricity, used in fuel cell vehicles, to be rewarded under the RTFO.
- Align support for different forms of biodiesel. Responses highlighted the different levels of support provided to hydrotreated vegetable oil (HVO) and fatty acid methyl ester (FAME). The government proposes to harmonise the levels of support for these two fuels.

Further work

- 1.13** The government continues to support the deployment of advanced biofuels in the UK. These innovative technologies will bring significant benefits to the UK in terms of carbon savings, highly skilled jobs and green growth.
- 1.14** We have previously announced £25 million of capital funding to underpin significant private sector investment in one or more demonstration-scale advanced biofuel plants in order to drive the development of the UK's biofuel industry¹. We have completed the feasibility study to help us determine the structure of the funding competition. We plan to announce the terms of the competition in the summer.

¹ <https://www.gov.uk/government/news/25-million-for-advanced-biofuel-demonstration-projects>