

Customs inconsistencies destabilise European ethanol industry

The Industrial Ethanol Association (IEA) assesses how one customs loophole could jeopardise the whole European ethanol economy

All eyes are on ethanol due to the rise in political popularity of biofuels, but inconsistencies in customs legislation are putting the sustainable future of European biofuels and the whole European ethanol industry at risk. The EU is losing duty and effectively subsidising ethanol producers in other countries at the expense of the European market.

Ethanol, whether agricultural or synthetic in origin, is classified under Chapter 22 of customs legislation but the loophole means some companies are blending ethanol with other chemicals to import it as a miscellaneous chemical product under Chapter 38. Increasing imports of ethanol are entering the EU, primarily from countries with high production like Brazil, Pakistan and Ukraine. But this loophole also creates an incentive for other countries to flood the EU market with misclassified imports, threatening the stability of the European industry and its ability to provide a share of the ethanol needed for biofuels.

This irregularity undermines the EU's biofuels policy and the balanced approach between imports and the domestic European ethanol production it called for to meet biofuels targets. It is impossible to achieve this balance, not only because the Chapter 38 loophole undermines the industry but because Chapter 38 imports are not even recorded as ethanol so cannot be taken into account when deciding if the correct balance has been achieved.

Security of supply is also impacted as Europe becomes reliant on misclassified ethanol imports, simply switching the dependence from fuel imports to ethanol imports. An independent European ethanol market is essential for Europe to meet its goals in terms of energy security and renewables. The Chapter 38 loophole shows a serious inconsistency in EU policy.

In many cases, the countries exploiting the loophole already heavily subsidise their own industry, which also benefits from cheap labour costs, making it difficult for the European industry to compete. But this situation also undermines the preferential trade agreements between the EU and certain developing – ACP (Africa, Caribbean and the Pacific) and GSP Plus – countries. The Generalised System of Preferences (GSP) is a scheme where a wide range of industrial and agricultural products originating in certain developing countries are given preferential access to the markets of the EU.

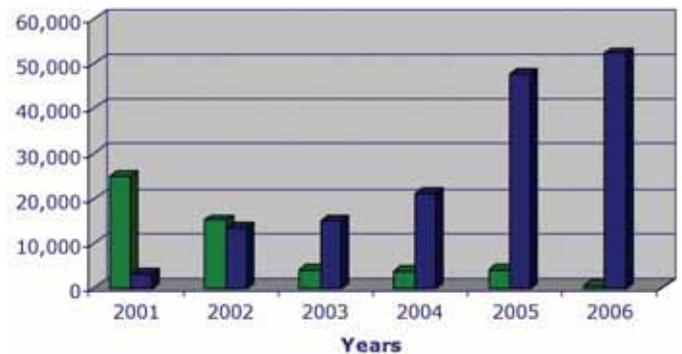
As long as the Chapter 38 loophole exists, the EU removes the market opportunities it is trying to create for these developing countries. And when countries are no longer covered by the preferential agreements, like Pakistan, they can use Chapter 38 as a backdoor to flood the EU market once more.

Chapter 22 ethanol is subject to controls to ensure it does not end up in the wrong hands. Uncontrolled imports of ethanol can end up being bottled and sold as fake spirits. The risk to human health and third party societal effects mean that this loophole must be addressed by the European Commission as a matter of urgency.

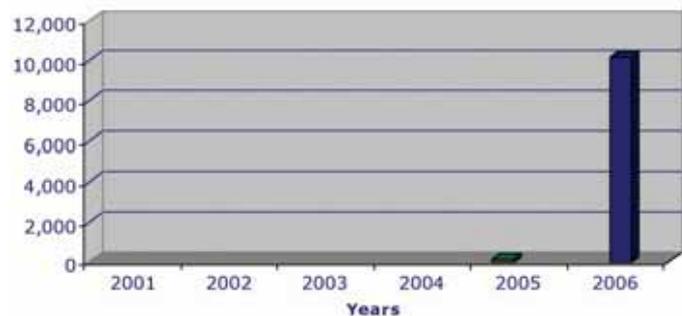
The impacts of this loophole go beyond the commercial,

Imports of Chapter 38 ethanol into the EU

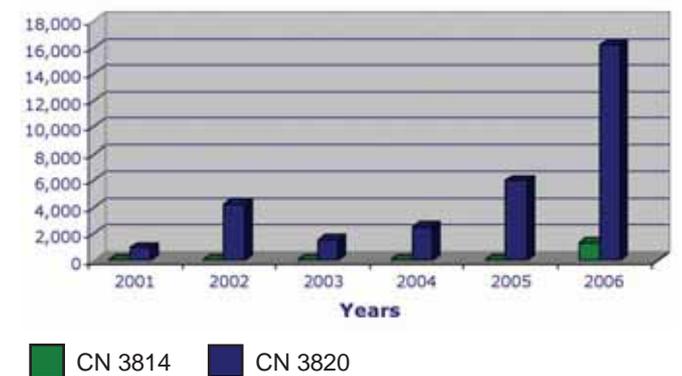
Imports of CN 3814 and 3820 material from Brazil (tonnes)



Imports of CN 3814 and 3820 material from Pakistan (tonnes)



Imports of CN 3814 and 3820 material from Ukraine (tonnes)



although the effect this regulatory uncertainty has on the industry in terms of jobs, growth and investment is significant.

It is essential to maintain a domestic ethanol industry and the IEA is calling on the European Commission to close this loophole by providing clear guidance to customs officials for classification of ethanol-based products being imported into the EU. The solution is

simple, ethanol is ethanol, no matter what its origin and all ethanol-based products imported into the EU should be treated as ethanol under Chapter 22. ●

This article was written by Emmanuel Desplechin, Secretary General of the IEA www.industrial-ethanol.org. The IEA is a trade association representing the synthetic ethanol sector, ethanol derived from fossil fuel rather than from an agricultural product. This synthetic ethanol is mainly used on the industrial market, in high-value products like cosmetics, pharmaceuticals and inks.

Source: Eurostat