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2007 report under Article 4(1) of Directive 2003/30/EC on the promotion of the use of biofuels or other renewable fuels for transport

Under Article 4(1) of Directive 2003/30/EC on the promotion of the use of biofuels or other renewable fuels for transport, the Member States are required to report to the Commission, before 1 July following the relevant year, on:

- measures taken to promote the use of biofuels or other renewable fuels to replace diesel or petrol for transport purposes,
- national resources allocated to the production of biomass for energy uses other than transport, and
- total sales of transport fuel and the share of biofuels, pure or blended, and other renewable fuels placed on the market for the preceding year. Where appropriate, Member States must report on any exceptional conditions in the supply of crude oil or oil products that have affected the marketing of biofuels and other renewable fuels.

The Government of the Republic of Hungary informs the Commission in accordance with the aspects set out in Article 4(1) of Directive 2003/30/EC in the following three points in respect of the measures taken to promote the use of biofuels for transport.

1. Measures taken in 2007 to promote the use of biofuels or other renewable fuels to replace diesel or petrol for transport purposes

- The Hungarian Government took further steps in accordance with the objectives of Government Decision 2058/2006 of 27 March on developing biofuel production and promoting its use in transport to reach the biofuel share of 5.75 % in 2010.
- From 1 July 2007 pursuant to Act CXXVII of 2003 on excise duties and special rules governing the distribution of excise goods (hereinafter "the Jöt.") and in accordance with Council Directive 2003/96/EC restructuring the Community framework for the taxation of energy products and electricity, Hungary introduced tax differentiation which provides for more favourable taxation for petrol containing bioelements;
 - (a) since 1 July 2007 two tax levels have been established for petrol; a lower level (103.5 HUF/l) for petrol with maximum sulphur content of 10 ppm and which contains at least 4.4 vol % bioethanol and/or relevant amount of ETBE, and a higher level (111.8 HUF/l) for petrol with higher sulphur content than 10 ppm and which contains less bio components than 4.4 vol %.

The European Commission approved in its Decision N495/2006 state support provided for in the form of tax differentiation.

- A national standard has been introduced under No MSZ CWA 15293 "Vehicle fuels E 85 ethanol, requirements and analysis methods" Article 7(37/B) of the Jöt. introduced the fuel E85 with effect from 1 January 2007, as a product which

contains at least 70 % bioethanol under customs heading 3824 90 99 and is produced as fuel. Pursuant to Article 52(2) of the Jöt. the bioethanol part¹ of fuel E85 is exempt from excise duties. E85 fuel is sold by Tesco Globál Áruházak Zrt. [Tesco Global Supermarkets], which sold 32 518 litres in 2007.

- It is still tax relief under Article 55(4) of the Jöt. – in accordance with EU rules – that is in force for biodiesel produced in Hungary for off-road machinery and equipment used in mines and for public water management works (e.g.: operating pumps and shovels).
- Government Decision 2058/2006 of 27 March sets the development of raw material production and processing of biofuels as an objective, so the Ministry for Agriculture and Rural Development is currently investigating the possibilities for providing the necessary agricultural aid, which is in line with the support rules of the EU. (We note that in 2007 there was an administrative consultation on the draft decree of the Minister for Agriculture and Rural Development on the detailed rules for providing support for low capacity plants producing plant-based raw alcohol and crude oil for non-food use. Since due to the draught the amount of cereals produced only met the food needs they postponed the introduction of the scheme.
- Under the tendering system of the Nemzeti Kutatási és Technológiai Hivatal (NKTH) [National Research and Technology Office] technical and scientific work for biofuel production technology oriented research and development and technical and scientific studies to solve applied technology issues receive extra support.

As a result of the above measures significant progress was made in respect of raw material production, processing and placing on the market.

- There is no exact data available, but the cropped area has grown, which is a result partly of the extension of EU support and partly of the expected increase in demand provided for by the regulation.
- As a result of domestic measures the domestic fuel producer and largest supplier MOL Nyrt. In 2007 published an open call for proposals to purchase 150-200 kilotonnes/year of biodiesel and/or vegetable oil . Investors could also submit tenders who planned the construction of processing capacity. The successful candidates were chosen and Rossi Biofuel Zrt. - in which the MOL group possesses 25 % plus one shares – constructed and opened a plant of a capacity of 150 kilotonnes in Komárom. On the basis of the production capacity MOL Nyrt. requires 120 000 tonnes per year. The plant employing 39 employees and producing the biodiesel component (fatty acid methyl ester) was built with an investment of approximately EUR 30 million. The plant may be extended further, and Hungary is likely to meet the objective of 5.75 % for 2010.
- Also as a result of the bioethanol tender published by MOL Nyrt. Hungrana Kft. owned 50-50 % jointly by Agrana International and Eaststarch, the latter in turn being owned by Tate & Lyle and ADM, constructed its bioethanol plant, which is able to produce 135 000 tonnes of water-free alcohol for fuel purposes from maize annually.
- Gy•ri Szeszgyár [Spirit factory of Gy•r] also has bioethanol production capacity (production of potable spirits), but the undertaking is not so far

present in the Hungarian biofuel market.

- MOL Nyrt., a fuel producer based in Hungary and a significant fuel supplier, is prepared to sell fuels containing bio components.

2. National resources allocated to the production of biomass for energy uses other than transport

The aid granted to 38 successful applications for renewable energy investments in the 2007 Nemzeti Energiatakarékossági Program (NEP) [National Energy Saving Programme] amounted to HUF 8.8 billion with a total investment cost of HUF 71.7 billion.

Energy savings and using biomass for energy purposes is a top priority of the New Hungary Rural Development Programme (hereinafter 'ÚMVP'), which is separately mentioned by the New Hungary Rural Development Strategic Plan. In 2007 several schemes of the European Agriculture Fund for Rural Development (EAFRD) supported the production and use of biomass for energy purposes within the ÚMVP.

The scheme *acquisition of stand-alone non-construction machinery and technological equipment* may grant support for the acquisition of stand-alone non-construction agricultural machinery and technological equipment. Within the scheme and relating to biomass production and use, acquisition of non-specific production equipment (e.g.: baler to collect by-products) and specific equipment necessary for the producer to process the biomass may be supported. Machinery and equipment relating to the cultivation of crops for energy purposes, biomass collection and processing by the producer have been classified as qualifying for a higher rate of aid.

The other specific energy relevance of the scheme is that it only supports the acquisition of up-to-date and energy-saving equipment which, by means of lower nominal consumption, helps to decrease energy consumption within the agricultural sector. Therefore all the development receiving aid within the scheme contributes to compliance with the energy management objectives. 4733 applications arrived for the scheme in 2007.

The primary aim of the scheme *modernisation of livestock holdings* is to modernise livestock holdings (development of animal husbandry facilities, manure storage, feeding), which in the case of manure storage may include construction of a biogas plant. The scheme was opened twice in 2007, and 48 applications were submitted relating to the construction of technological modules for biogas plants; 44 applications received support in an amount of HUF 32.76 billion. We note that before the scheme was launched there were two biogas plants constructed beside animal husbandry holdings in Hungary (Pánhalma, Nyírbátor).

On the basis of clients' data 203.48 GWh/year in green electricity may be produced with the capacity planned to be built, but more reliable and unbiased data will be available after the monitoring system has been created.

Within the scheme *support for ligneous and herbaceous energy crops* aid may be applied for planting of perennial, herbaceous energy crops and propagated, ligneous energy crops. Before the scheme was published the total area of ligneous energy crops had not reached even 300 hectares in 2006, therefore this scheme greatly contributes to the spread of these energy crops. Based on the ÚMVP the aim to be reached for 2013 is 49 000 hectares.

Within the scheme *support for acquisition of biomass furnaces* the installation of biomass furnaces and related primary and secondary development may be supported. This scheme received only 12 applications; however, the developments provide important references in respect of future investments. Moreover, several sub-section schemes provide a possibility

(e.g.: acquisition of crop dryer combined with biomass incineration system) for the acquisition of biomass furnaces as part of a complex development.

Starting from 2005 - using the possibility provided for in Article 88 of Regulation (EC) 1782/2003 - Hungary introduced a scheme of additional area payments for energy crop production, the detailed conditions of which in respect of 2007 are contained in Decree 33/2007 of 26 April of the Minister for Agriculture and Rural Development on the conditions for granting additional support from the European Agricultural Guarantee Fund for the production of energy crops. In light of the above – in line with the provisions of Regulation (EC) No 1973/2004 – an additional EUR 45 per hectare (maximum) may be requested for producing energy crops. Details are given in the table below.

Decree(s)/Regulation(s)	Decree 33/2007 of 26 April of the Minister for Agriculture and Rural Development; Regulation (EC) 1973/2004
Communication(s)	Communication 98/2007 of 12 December of the Agricultural and Rural Development Office
Type of aid	Supplementary related to area aid (EU)
Number of applications	3 643
Area concerned (ha)	178 059.06
Applications receiving payment	2 714
Area receiving payment (ha)	80 834.56
Amount paid (in €)	2 198 225.36

3. Total sales of transport fuel and the share of biofuels, pure or blended, placed on the market for 2007

According to the data from the Ministry of Finance, Hungarian fuel consumption amounted to 184.174 PJ in 2007. Details are given in the table below: (the calculation uses the following values: petrol and diesel: 42 MJ/kg; bioethanol: 26.6 MJ/kg, biodiesel: 37.5 MJ/kg)

Total sales of transport fuel and the share of biofuels, pure or blended, placed on the market for 2007				
	Quantity (litres)	Density (kg/m³)	Quantity (kilotonnes)	Quantity (PJ)
Petrol	2 103 260 000	756	<u>1 590.065</u>	66.783
<u>Diesel</u>	3 324 510 000	840.73	2 795.015	<u>117.391</u>
Total				<u>184.174</u>
Bioethanol	54 015 250	789	42.618	<u>1.13</u>
Biodiesel	2 383 000	880	<u>2.097</u>	<u>0.078</u>
Total				<u>1.218</u>
Share of biofuels in the total amount of fossil fuels placed on the market 0.66 %				

Calculated on the basis of energy content (PJ) the share of biofuels in respect of annual fuel consumption for transport was 0.66% in 2007. The share of biocomponent in respect of the

energy content of petrol was 1.7 % during the same period. A significant increase in biofuel share may be expected after 2007 due to the aforementioned measures and the commissioning of biofuel producing plant capacities.