Renewable Transport Fuel Obligation: frequently asked questions

Q What is the Renewable Transport Fuel Obligation? How will it work?

The RTFO will require suppliers of fossil fuels to ensure that a proportion of the road fuels they supply in the UK comprise green fuels like biofuels.

Certificates can be claimed when renewable fuels are supplied and fuel duty is paid on them. At the end of the obligation period, these certificates may be redeemed to the RTFO Administrator to demonstrate compliance. Certificates can be traded.

If obligated suppliers don't have enough certificates at the end of an obligation period they have to 'buy-out' the balance of their obligation by paying a buy-out price. The buy out price will be 15 pence per litre in the first two years.

Q How do biofuels save carbon - aren't the tailpipe emissions just the same as normal fossil fuels?

Tailpipe emissions are about the same. But the carbon in biofuels is part of today's carbon cycle - when the wheat or oil-seed rape grows it takes in the carbon dioxide, and when the fuel is burned it releases it. Fossil fuels by contrast have kept their carbon locked in the ground for millions of years.

Q When will you introduce the obligation and how long will it last?

The scheme will start in April 2008. The obligation is a mechanism for the long term. The Government's intention is that the RTFO should continue until at least 2020.

Q Who will be obligated?

The obligation will fall on refiners, importers and any others who supply fossil based road transport fuels at the point at which excise duties become payable. In practice this means that only those suppliers who supply a batch of transport fuel at the point at which the fuel crosses the fuel duty point will be obligated.

Q Does the obligation cover all transport fuels (maritime, rail, aviation and road)? Or does it just relate to road transport fuels?

In the first instance it will apply to fuels predominantly used in road transport. This covers over 90% of the transport fuel market and uses existing information and control mechanisms. We could consider extending the obligation to other sectors in the future, but we want to keep it as simple as possible.

Q How would an obligation apply to the areas covered by the Devolved Administrations?

The obligation will apply to the whole of the UK.

Q Why an obligation and not duty incentives?

Duty incentives have been useful in pump priming the market. An obligation is now the right step to promote renewable fuels into the long term - providing more certainty for industry and for Government.

Q What will the duty incentive be in future?

The duty incentive is a matter for the Chancellor. He has set the rate for 2008/9 and 2009/10 at 20p, and guaranteed that the total package of support (buy-out + duty incentive) will be 35p in 2009/10 and 30p in 2010/11. He has also indicated that the emphasis of support will switch from duty to buy-out over time.

Q What will be the effect on pump prices?

At current prices there will be very little if any effect on pump prices.

Q Why can't the Government introduce an obligation today?

An obligation is a mechanism for the long term promoting certainty and helping to stimulate economies of scale and innovation - and it's important that we get it right. It will require secondary legislation on the detail. A formal consultation on the obligation was held earlier this year; the Government published a response on 18 July 2007, which is available at
http://www.dft.gov.uk/consultations/closed/draftrtfo/rtforesponsestoconcul

Q Why not set the targets higher?

The targets we've set reflect the balanced approach Government has taken. They are stretching but achievable. They reflect the time required to build the production capacity in the UK and to develop the infrastructure to supply the fuel to market. The RTFO allows companies to trade certificates, so companies who may have difficulty meeting the targets on their own will be able to buy certificates from those who can supply the fuels more easily.

Q Where will the biofuels come from?

We anticipate that some will come from UK sources and some from abroad. Brazil is currently the world's largest producer of bioethanol, for example.

Q What are you doing to ensure biofuels are made in the UK?

The key priority of this initiative is about carbon savings. But the RTFO will provide the long term market certainty industry has asked for to commit the necessary investment for a domestic biofuels industry.

Q How will you make sure that the biofuels used don't come from unsustainable sources?

On the 21st June, the Government launched a public consultation setting out the Government's draft proposals on the detail of the environmental and sustainability reporting requirements for the proposed Renewable Transport Fuel Obligation (RTFO). The consultation proposes requiring all suppliers of biofuels to report on the level of carbon savings and sustainability of the biofuels they have supplied. Suppliers that do not submit a report will not be eligible for RTFO certificates. The Administrator will publish reports comparing the performance of different suppliers and the biofuels they have supplied, to encourage greater performance.
The consultation includes a detailed methodology for calculating the carbon savings of a variety of biofuels and adopts an approach to sustainability reporting by which fuel suppliers can report and provide evidence that they meet a benchmarked list of existing agro / environmental standards.

Q How quickly will the measures be in place?

The measure are being put in place as quickly as possible:

- from April 2008 there will be a requirement to report on the carbon savings and sustainability of biofuels;
- from April 2010 the Government aims to reward biofuels under the RTFO according to the amount of carbon they save. This will be subject to compatibility with EU and WTO requirements and future consultation on the environmental and economic impacts;
- from April 2011 the Government aims to reward biofuels under the RTFO only if they meet appropriate sustainability standards. This will be subject to the same provisos as above and providing the relevant international standards are in place to allow this;
- the Government will ask the RTFO Administrator to report every three months on the effectiveness

of the RTFO's environmental reporting system, and on the carbon and sustainability effects of the RTFO;

- the Government intends to set challenging targets for: the level of greenhouse gas savings we expect to see from biofuels used to meet the RTFO, the proportion of biofuels from feedstock grown to recognised sustainability standards and the amount of information we expect to be included in sustainability reports;
- the Government has asked the Low Carbon Vehicle Partnership to explore the feasibility of a voluntary labelling scheme, allowing responsible retailers to show that the biofuels they supply are genuinely sustainable. Any scheme would need to be compatible with WTO rules.

Q When will this be mandatory?

Moving to mandatory carbon saving and sustainability requirements will require changes to the RTFO Order which, under the Energy Act 2004, would be subject to consultation. We plan to consult on this as soon as possible.

Q What information will be in the reports?

Final decisions on the precise reporting requirements will be a matter for the Renewable Fuels Agency which will be established by the RTFO Order as the Administrator of the RTFO. The Government commissioned expert consultants to advise on the precise scope, structure and frequency of these reports and the level of detail. It is expected that companies will report on a monthly and annual basis and the reports will include information such as the carbon intensity of the biofuel, origin of the feedstock, any environmental and/or social standards in operation during the cultivation of the feedstock and the land-use in 2005. In addition annual reports will include information on a companyâs activities to improve data capture or activities to improve the sustainability of the fuels they source. The Government consulted on this system of reporting over the summer and is currently analysing the responses.

Q Will there be targets for the level of carbon savings biofuels have to deliver?

The Government intends to set stretching indicative targets for the level of carbon and sustainability performance expected from all transport fuel suppliers claiming certificates for biofuels in the early years of the RTFO. These targets are included in the consultation on carbon and sustainability under the RTFO published on the 21st June and cover:

- the level of greenhouse gas savings that we expect to see from the biofuels used to meet the RTFO;
- the proportion of those biofuels that we expect to come from feedstocks grown to recognised sustainability standards; and
- the amount of specific information that we expect to be included in sustainability reports.

Q When can we expect agreed standards for biofuels?

The UK Government is working with the European Commission, other EU Member States and other international bodies to develop comprehensive, verifiable and robust environmental standards for biofuels. We are working to make this happen as soon as possible, but we anticipate the process will not be complete before April 2008. That is why we are consulting on a system of sustainability reporting and indicative targets for biofuels as an interim measure to put environmental concerns at the heart of the RTFO from the start.

Q What fuels will qualify? Will biogas be included?

Fuels currently qualifying for fuel duty incentives will qualify, ie biodiesel and bioethanol. Also biogas (natural road fuel gas) will be eligible. In the future we will also consider other renewable fuels as these become available.

Q Why has the RTFO been set at 5% by volume?

5% is the highest level that we are currently able to set without falling foul of EU fuel quality standards and invalidating vehicle warranties. The level of the obligation has also taken into account the following factors:

- what industry can deliver;
- our international obligations (biofuels directive);
- the desired level of carbon savings (at 5% this is approximately 1 million tonnes of carbon, equivalent to taking 1 million cars off the road) and the impact biofuel production will have on the environment;
- the likely impact on UK business - farming community, biofuels industry, transport fuel suppliers;
- the cost to the consumer being acceptable (biofuels are more expensive to supply than fossil fuels).

Q How quickly can it be increased to 10%?

The Government intends the level of the Obligation to rise above 5% after 2010/2011 provided three critical factors are met:

- development of robust sustainability and carbon standards for biofuels to ensure that they are delivering high levels of carbon savings without leading to biodiversity loss or endangering sensitive habitats;
- development of new fuel quality standards at EU level to ensure existing and new vehicles can run on biofuel blends higher than 5%; and
- costs to consumers being acceptable.

Q Can biofuels ruin car engines?

Good quality biofuels used in low level blends present no problems for engines. Poor quality fuels, particularly if used without blending or in high level blends can cause problems particularly with the injectors ("gumming up").

For related documents, pages and internet links, see the column on the right.