



**AGENZIA
DELLE
DOGANE**

Roma, 4 agosto 2006

Risoluzione n. 2/D

Protocollo: 2799

Rif.:

Allegati: 2

Alle Direzioni Regionali
dell'Agenzia delle Dogane
LORO SEDI

Alle Direzioni Circostrizionali
dell'Agenzia delle Dogane
LORO SEDI

Agli Uffici Tecnici di Finanza
LORO SEDI

Agli Uffici delle dogane
LORO SEDI

e, per conoscenza: Al Dipartimento delle Politiche
Fiscali

Al Ministero delle Attività Produttive
Direz. Politica Commerciale e Gestione
Regime Scambi – Direzione Sviluppo
Produttivo
ROMA

Al Ministero delle Politiche Agricole
Direz. Politiche Comunitarie e
Internazionali
ROMA

Al Comando Generale della
Guardia di Finanza –
Ufficio Operazioni
Viale XXI Aprile, 51
00162 ROMA

Al Servizio Consultivo Ispettivo
Tributario – SE.C.I.T.
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OGGETTO: Trasformazione sotto controllo doganale di alcool etilico – Esame delle condizioni economiche da parte del Comitato Codice Doganale – Sez. Regimi Doganali Economici ai sensi dell'art.552 par.2 del Reg.to CEE 2454/93 –

Si fa presente che nel corso della 95^a riunione del Comitato Codice Doganale – Sezione regimi doganali economici, che si è tenuta a Bruxelles il 7 aprile u.s., è stato presentato dai Servizi della Commissione CE il documento di lavoro unito alla presente, concernente una istanza di trasformazione sotto controllo doganale di alcool etilico presentata dalla delegazione belga per essere sottoposta ad esame delle condizioni economiche, ai sensi dell'art.552 par.2 del Reg.to CEE 2454/93.

Al riguardo, tenuto conto del disposto dell'art.504, par. 4 del Reg.to CEE 2454/93, si comunica l'avviso favorevole espresso dal Comitato circa l'accogliabilità della istanza sopra citata presentata dalla Autorità doganale belga, potendosi per la fattispecie in oggetto ritenere soddisfatte le condizioni economiche.

Ai sensi della richiamata normativa comunitaria, le conclusioni del Comitato vengono prese in considerazione non soltanto dalle Autorità interessate, ma anche da qualsiasi altra Autorità doganale che si occupa di autorizzazioni e richieste simili. Pertanto, ove eventuali analoghe istanze – concernenti merci di importazione, attività di trasformazione e prodotti trasformati della stessa tipologia - siano presentate all'Autorità doganale italiana, le condizioni economiche dovranno intendersi del pari soddisfatte.

L'istanza presentata dalla delegazione belga riguarda la trasformazione di alcool etilico (CNC 2207 1000 10) in un liquido scongelande e anticongelande, detto Petroscreen SC 16 (CNC 3820 0000 00). Va evidenziato che nel caso di specie, le condizioni economiche si considerano soddisfatte soltanto per istanze che prevedono la trasformazione dell'alcool etilico nel suddetto liquido scongelande o anticongelande, non è possibile quindi applicare tale decisione del Comitato per la produzione di prodotti diversi da quello sopra citato, seppure rientranti nella stessa voce doganale (CNC 3820 0000 00).

Per tali istanze, in deroga a quanto previsto dalla seconda parte del punto C2) della Circolare n.30/D del 28 giugno 2001, le dogane territorialmente competenti in relazione al luogo in cui saranno effettuate le operazioni di trasformazione, o la prima di tali operazioni (in caso di trasformazioni successive), saranno competenti al rilascio della relativa autorizzazione, secondo la procedura normale (per iscritto) con utilizzo del relativo modello (allegato 67), in maniera conforme alle indicazioni del Comitato.

Inoltre per adempiere agli obblighi di cooperazione amministrativa (art.522 DAC), delle autorizzazioni rilasciate sarà data sollecita comunicazione alla scrivente, utilizzando per l'invio dei dati ivi previsti l'apposito formulario riprodotto in appendice all'allegato 70 del citato regolamento.

Si informa inoltre che nel corso della suddetta riunione il Comitato ha esaminato una istanza presentata dalla delegazione svedese riguardante la trasformazione di alcool etilico (CNC 2207 1000 10) in prodotti chimici, quali acetaldeide (CNC 2912 1200), acido acetico (CNC 2915 2100) e acetato di etile (CNC 2915 3100), di cui si unisce il relativo documento di lavoro. Il parere favorevole espresso dal Comitato in tale ipotesi è finalizzato solo a prorogare per un ulteriore periodo di tre anni l'autorizzazione già rilasciata dall'Amministrazione doganale svedese ed ha quindi efficacia nei confronti solo di tale autorizzazione. Nel caso in cui venissero presentate da parte di operatori italiani istanze nelle quali sia previsto lo stesso tipo di trasformazione dovranno essere trasmesse a questo ufficio per il successivo inoltro in sede comunitaria.

Si pregano le Amministrazioni ed Uffici in indirizzo di provvedere alla necessaria informazione degli operatori economici del settore.

Il Direttore dell'Area Centrale
Dr. Paolo Di Roma



EUROPEAN COMMISSION
DIRECTORATE-GENERAL
TAXATION AND CUSTOMS UNION
Customs Policy
Transit, suspensive regimes and supply chain security

Brussels, 16 March 2006

TAXUD/1619/2006-EN

Working paper

CUSTOMS CODE COMMITTEE

Section for Customs Procedures with Economic Impact

Processing under Customs Control (PCC)

(Processing of ethyl alcohol classified within TARIC Code 2207 10 00 10 /
examination of the economic conditions in accordance with Article 552(2) CCIP)

This document will be examined at a forthcoming meeting of the Committee.

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PROCESSING UNDER CUSTOMS CONTROL (PCC)

Importation of undenatured agricultural ethyl alcohol under PCC.

Subject: Application by the Swedish authorities to grant an authorisation for PCC of undenatured ethyl alcohol (ethanol) classified within TARIC Code 22 07 10 00 10 for processing into three different chemicals i.e.

- ethyl acetate (CN Code 29 12 12 00),
- acetaldehyde (CN Code 2915 21 00), and
- acetic acid (CN Code 2915 31 00).

Background

At the 94th Customs Code Committee Meeting – Section “Customs Procedures with economic impact” processing of ethyl alcohol was on the agenda due to an initiative from the Commission in accordance with Article 503(c). At the meeting no formal application regarding processing of ethanol into certain chemicals had been submitted to the Commission, and several delegations asked for additional information. The Swedish delegation suggested that the economic conditions should be examined on the basis of a formal application.

Now a formal application has been made by the Swedish-based company.

Economic conditions

According to Article 502 (3) of the Implementing Regulations for the processing under customs control arrangements, the examination shall establish whether the use of non-Community sources enables processing activities to be created or maintained in the Community.

In the enclosed application the economic conditions are described as well as the impact on the European producers.

Application for an authorisation for Processing under Customs Control – Economic conditions

1. The period of validity of the authorisation

Company A's present authorisation for Processing under Customs Control (PCC) expires on 11/6/2006. The company would like a new authorisation to be granted from 12/6/2006. There will be a need to be able to import ethanol under PCC over the coming 5-6 years until the company has access to ethanol it has produced itself. The objective is to be able to build the first full-scale plant for the production of cellulose-based ethanol in the region in 2010 – 2012. A pilot plant for the production of ethanol based on cellulose as a raw product was put into service in 2004. It is company A's staff that run the plant and it is also accommodated in the company's premises. The first full-scale plant for cellulose-based production that is built will come under the company's ownership structure, which is why it can already be foreseen at this stage that the company's ethanol needs will be able to be satisfied from this plant.

2. Products to be processed

Trade name: Agricultural ethanol (ethyl alcohol) with an alcohol content of at least 80 per cent by volume
Taric-number: 2207 10 00 10
Tariff rate: EUR 19.2/hl
Origin: Principally Brazil *
Estimated quantity: 80,000 tonnes per year
Estimated value: EUR 32,000,000 per year

* There may however be imports from other third countries if, for example, Brazil is affected by drought, which means that an extremely limited quantity of ethanol is exported from the country. This occurred 5-6 years ago.

See specification in Appendix 1.

3. Processed products

CN-number:	Trade name:	Rate of yield (Ethanol 100%):	Tariff rate:
2912 12 00	Acetaldehyde	0.92	5.5 %
2915 21 00	Acetic acid	1.19	5.5 %
2915 31 00	Ethyl acetate	0.88	5.5 %

See specifications in Appendices 2-4

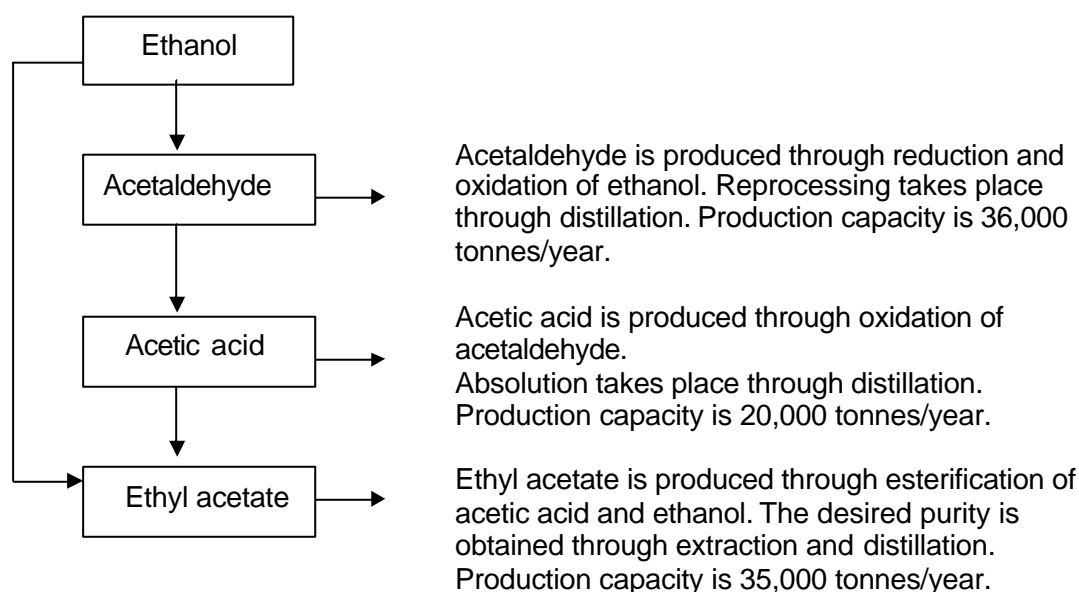
Acetaldehyde is an important raw product in the production of other chemical products such as, for example, paint binders and softening agents for plastics. Acetaldehyde is also a common raw product in the production of acetic acid.

Acetic acid is used in concentrated form as a raw product for various chemical plastics but also in the production of solvents of the ester type. Butyl acetate and ethyl acetate dominate here. Acetic acid is also used in the production of cellulose acetate, CMC and a number of other organic products. Diluted acetic acid has been increasingly used as an herbicide.

Ethyl acetate is a solvent that is used in many contexts such as dissolving paints, varnishes, plastics and rubber. Ethyl acetate is one of the least polluting of the organic solvents. The product is characterised by great effectiveness, while it degrades easily in both air and water.

4. Description of the nature of processing to be carried out

Company A produces Acetaldehyde, Acetic Acid and Ethyl Acetate using ethanol as a raw product. The ethanol is converted in a chemical processing plant in the north of Sweden. The region has been involved in chemical production based on ethanol since the 1930s.



Usually, ethanol as a raw product has a strength of 93.5% (weight). The rate of consumption of ethanol for each kilo of processed product is shown below, also for anhydrous ethanol (100%).

	Ethanol 100%	Ethanol 93.5%
Acetaldehyde	1.09	1.172
Acetic acid	0.84	0.903
Ethyl acetate	1.13	1.215

5. Economic conditions

Chemical production at company A is dependent on imported ethanol as a raw product. The ethanol that is offered today by producers within the EU is highly processed and therefore too expensive for the purpose. The selling price of the processed products would not cover the raw product costs, which is why this is not an economically sustainable alternative. In order to be competitive on the finished product market, the company must instead buy a lowly processed and thereby considerably less expensive ethanol. At no time during its 50-year production of the three chemicals has the company bought ethanol for chemical conversion from EU-based producers. Nor will the company, for cost reasons, be able to buy ethanol for chemical conversion from EU-based producers in the future. If the company is not granted an extension of the current PCC, the alternative is not therefore to buy the ethanol from EU-based producers but to close down the activity.

Company A is a unique company within the European Union with its lengthy knowledge of producing chemicals based on bioethanol. Within the chemicals area, the company is the only one in Europe that produces this type of ethanol-based recycled product from biological raw products. It would therefore be very unfortunate if the company was forced to wind up the activity due to the agricultural regulations that have come into force and which actually do not have any bearing on the current production of chemicals. The ethanol for chemical conversion that the company has imported for more than 50 years is, however, considered to be an agricultural product and duty is therefore to be paid on it as ethanol under Taric number 2207 10 00 10. The high tariff rate that applies to these products then leads to a raw product cost that exceeds the selling price of the end products. Ethanol as a raw product for the chemical industry should be treated in respect of customs like other industrial raw products (HS Chapters. 26-38)

It should also be noted that there is today a great shortage of bioethanol within the Union in order to comply with the Biofuels Directive (Directive 2003/30/EC of the European Parliament and of the Council of 8 May 2003 on the promotion of the use of biofuels or other renewable fuels for transport) (OJL 123, 17/5/2003). The demand for fuel ethanol within the EU is today already significantly greater than internal production and is increasing through the Biofuels Directive. The EU therefore needs to import ethanol in order to be able to comply with the goals in the Biofuels Directive and this need to import will remain for the foreseeable future. Investments in the EU within the fuel ethanol sector are therefore not threatened in any way by Company A's imports under PCC for chemical conversion.

The closing down of company A's activity would lead to the risk of a monopolistic market position in Europe for Acetaldehyde and Ethyl Acetate. This would also create market conditions where the company becomes dependent on raw products from its competitors, which is not sustainable. It is not reasonable for regulation within a market, in this case on ethanol, to lead to other markets being threatened and jobs being lost.

The closing down of the production of chemicals at Company A would lead to at least 150 people losing their employment. A decrease of the employment in the region in which the company has its activity is very vulnerable. Closure would also affect other companies, including those that buy the processed products as raw products in their own processes. This would also jeopardise all those projects, supported by the EU that Company A is actively involved in. The company's chemicals activity is the basis for the

pilot plant for the production of cellulose-based ethanol that was started up in 2004 and closure would jeopardise the entire project that is of great national and international interest. If Company A is not granted an extension of the authorisation for PCC, this would, in practice, mean the Union snatching away the conditions for projects that it has itself entirely or partially initiated and financed.

Company A's need to be able to import ethanol under PCC is limited to a period of 5-6 years. It is estimated that, after this, the cellulose technology for the production of ethanol will be fully developed. The objective is to be able to set up the first full-scale plant for the production of cellulose ethanol in 2010-2012, which would mean that the need for ethanol could be provided for from plants within the ownership circle.

In summary, it can therefore be established that an extension of the present PCC for a period of 5-6 years would mean the conditions existing for keeping up to 150 jobs in a part of the Union very badly affected by unemployment without this negatively affecting any producer of the import product based within the EU. If an extension were, on the other hand, to be refused this would lead to a closure of the activity without any corresponding benefit for any other EU-based activity.

5.1 Raw product and selling prices

EU produced ethanol

Within the Union, ethanol is offered at the present time at a price of EUR 710 – 800/tonne, applying to both agricultural ethanol and synthetic ethanol. It is important to note that the volume in demand by Company A of the quality used in chemical production is not available within the EU.

Third country ethanol

It is not economically possible to import ethanol (2207 10 00) for chemical production at a tariff rate of EUR 19.2/hl when this leads to a raw material cost of EUR 637/tonne (Ethanol price EUR 400/tonne CIF + customs charges EUR 237/tonne).

Third country ethanol, denatured

Nor is it possible to import denatured ethanol (CN Code 2207 20 00) with a tariff rate of EUR 10.2/hl as denatured ethanol can lead to side reactions in the production process and even contaminate the end products (acetaldehyde, acetic acid and ethyl acetate). In terms of costs, this would not be an alternative either, despite the customs charges being about half, as the ethanol price is higher for denatured ethanol than for pure ethanol.

Ethanol from LDC and GSP+ countries

Company A has investigated the possibility of importing ethanol from LDC and GSP+ countries. The volume is not available to buy from the LDC countries (the least developed countries). The GSP+ countries normally have an annual production of about 20,000 m³ fine spirit, which is of the same quality as spirits for drinking. None of the countries has an annual production equivalent to even half of the company's ethanol needs and the prices of spirits for drinking are much higher than for chemical raw products. It can also be added that some of these countries have fuel programmes. This means that there is a very limited amount of ethanol exported from these countries. A

sense of security as regards the long-term provision of raw products is required to be able to continue to run a chemicals activity.

Ethanol under PCC

The tariff rate for Acetaldehyde, Acetic Acid and Ethyl Acetate is 5.5% of the dutiable value, which gives a raw product cost of EUR 422/tonne (Ethanol price EUR 400/tonne + customs charges EUR 22/tonne) for ethanol imported under PCC.

Costs and selling prices for the processed products are as follows:

	Fixed & variable costs <u>ex. ethanol cost</u>	Ethanol cost <u>under PCC (422/tonne)</u>	Selling price FCA <u>(Incoterms 2000)</u>
Acetaldehyde	EUR 85/tonne	EUR 495/tonne	EUR 610/tonne
Acetic acid	EUR 180/tonne	EUR 381/tonne	EUR 600/tonne
Ethyl acetate	EUR 195/tonne	EUR 513/tonne	EUR 750/tonne

When comparing the ethanol cost and selling price of the processed products, the rates of consumption must not be forgotten, which means that more than a kilo of ethanol is needed per kilo of processed product. The rates of consumption are shown at point 4. It can also be said that there is an extremely small quantity of acetic acid sold. Almost the entire production goes towards the production of ethyl acetate.

5.2 Maintaining a competitive situation

The acetaldehyde market within the EU is dominated by one company with a capacity of about 140,000 tonnes at a value of about EUR 91,000,000. They use ethylene (hydrocarbon gas) as a raw product. It is therefore a synthetic raw product. It is not possible to use ethanol as a raw product in their production process. If the raw product were to be changed, the production process would also have to be rebuilt.

The ethyl acetate market within the EU is dominated by another company with a capacity of about 220,000 tonnes at a value of about EUR 165,000,000. They use ethylene and acetic acid from their own sources in the North Sea as a raw product. They have therefore an integrated production process that means that they are not dependent on imported raw products.

If Company A is forced to close down its activity, the aforementioned companies will achieve a monopolistic market position within the EU for acetaldehyde and ethyl acetate. There is also an obvious risk of direct shortages with only two suppliers. This was the case about two years ago when one of the above companies experienced major problems in its production plant with considerable delivery difficulties as a result. There was almost immediately a major shortage of the product within the Union.

These two companies are also dominating producers of synthetic ethanol in the EU (based on ethylene). It would therefore not be a sustainable solution for Company A to replace imported bioethanol with internally produced synthetic ethanol. It is also imperative to be able to continue to use biological raw products for chemical production bearing in mind the ongoing debate on climatic issues. Company A's biggest customer in acetaldehyde would also become dependent on raw products from its competitors in the event of a closure. The closing down of Company A's chemicals activity would therefore seriously interfere with the competitive position in the market and cause a monopoly-like situation for two companies that base their entire production on non-renewable fossil raw products.

5.3 Effects on employment

While awaiting a solution to the provision of ethanol, Company A has not been able to expand but has had to concentrate on, as far as possible, maintaining the production capacity that existed at the time of entry into the EU. As stated above, it would however be unsustainable to base the ethanol need on imports under KN number 2207 10 00 in accordance with the tariff rates applying. Nor is there any potential ethanol producer within the Union that can supply the quantity required of lowly processed ethanol at a competitive price for the purpose. Without the application being approved, the only alternative remaining is, in practice, closure. The chemicals activity at Company A has an annual turnover of about EUR 35,000,000. It must also be added to this that Company A's activity within other market segments will be seriously threatened.

The closing down of the chemicals activity at Company A would be devastating in many ways. As stated above, it would create a monopoly-like situation on the market for acetaldehyde and ethyl acetate. Furthermore, 43 people attached to the chemicals activity would become directly unemployed. The company's activity within other market segments, which employ a further 34 persons within the company, would also be seriously threatened. It can also be mentioned that the company buys a great deal of external services from various contractors and consultants on an ongoing basis, which means that employment in the district would be further reduced. Company A continuously employs an average of 10 contractors for continuous maintenance and renovations, 6 consultants for IT and projects, 2 people for the laboratory and analyses and further people for things like foreign projects, watchmen, inspectors, shipping agents and brokers.

The Swedish Energy Agency has commissioned a research/pilot plant to be set up at Company A for the development of ethanol processes principally based on cellulose and softwood as raw products. Besides the fact that it is staff from Company A that operate the plant, there are therefore also a number of people who would be threatened by the closure of the company's chemicals activity. Company A is also an important player for all the haulage contractors and shipping companies that transport the company's products as logistical problems become more tangible in the northern part of Sweden. Company A's activity lies within an established development area. Sweden's ability to maintain a high level of welfare is dependent on growth throughout the country. This requires a powerful policy that is based on local and regional conditions and which mobilises the developmental power in all the regions of the country.

5.4 The acetaldehyde market within the EU

Company A's sales of acetaldehyde amount to about 21,000 tonnes per year. The main customer for this volume is another Swedish company, which buys a total of about 80-90% of the volume produced. Using acetaldehyde as its main raw product, this company produces Pentaerythritol, which is used within the paint industry. If this company does not have the option of buying its acetaldehyde from Company A, it will become entirely dependent on the raw product from its greatest competitors. This is not a sustainable market situation.

With the overproduction and thereby tough price competition that exists today in respect of Pentaerythritol, the Swedish producer of the product cannot support a price for acetaldehyde that contains the costs of "standard duty" for the ethanol. The consequence would therefore probably be closing down the production of Pentaerythritol. Today, this plant directly employs 30 people but it is estimated that a further 20 people would have to leave the company in the event of such a closure.

The sales value of the volume of Pentaerythritol produced is SEK 400 million a year, which is about 20% per year of the local turnover at the producer's plant. About 95% is delivered outside Sweden. The closing down of Pentaerythritol production will have a great impact on the economy of the entire plant. In the district, about 1,700 people are today employed in chemical production, 700 of which are employed at the producer of Pentaerythritol. A reduction in turnover of SEK 400 million, will therefore negatively affect the profitability of the entire chemical production in the district and thereby also competitiveness. In the long term, this will also have a negative effect on employment.

In the table below, the EU's import of acetaldehyde (2912 12 00) from third countries in 2004 is shown.

	<u>1000 EURO</u>	<u>TONNE</u>
USA	981	52
Russia	682	4 170
Switzerland	152	47

(Source: Eurostat)

The statistics show a very small amount of imports of acetaldehyde to the Union. This is because acetaldehyde is a product that is difficult to transport for, among other things, safety reasons. It is very explosive and is mainly transported by rail. This leads to the product usually not being exported either. Within the Union, it is therefore a case of internal production and consumption. If Company A cannot continue its production of acetaldehyde, this will lead to noticeable disturbances to the acetaldehyde market within the EU.

The total production capacity of acetaldehyde within the EU:

	<u>Production capacity</u>	<u>Capacity for the free market</u>
Germany	140,000 tonnes/year	120,000 tonnes/year
Spain	125,000 tonnes/year	40,000 tonnes/year
Sweden	35,000 tonnes/year	20 – 35,000 tonnes/year
Italy	60,000 tonnes/year	Net buyers
Germany	<u>90,000</u> tonnes/year	<u>0</u>
	450,000	180-195,000

(Source: ECN (European Chemical News) and our own estimates)

According to the information above, the total production capacity for sale on the free market is not used up. This is because it is only parts of the total production that go up for sale while the other parts are used in an integrated production process in internal plants.

5.5 The acetic acid market within the EU

In the table below, the EU's import of acetic acid (2915 21 00) from third countries in 2004 is shown.

	<u>1000 EURO</u>	<u>TONNE</u>
USA	56 645	174 036
Serb.Monten.	19 738	57 043
Ukraine	11 857	42 947
Russia	3 760	10 652
Singapore	2 123	6 697
Norway	2 120	4 270
Switzerland	1 992	4 566
Bulgaria	105	150
Bosnia and Herz.	41	160
Belarus	14	41
Total:	98 988	301 432

(Source: Eurostat)

Company A is, in principal, using all acetic acid produced as a raw product for the production of ethyl acetate.

5.6 The ethyl acetate market within the EU

The import of ethyl acetate to the EU varies and is greatly dependent on the dollar exchange rate. In 2004, total imports were 113,152 and the total consumption was estimated at 330-360,000 tonnes per year.

In the table below, the EU's import of ethyl acetate (2915 31 00) from third countries in 2004 is shown.

	<u>1000 EURO</u>	<u>TONNE</u>
Mexico	22 915	45 254
Brazil	9 079	18 262
Ukraine	6 249	10 136
Russia	6 217	11 822
USA	5 598	10 702
Singapore	3 708	7 680
South Africa	3 426	7 748
Israel	504	658
Japan	233	34
Switzerland	154	161
India	76	95
Colombia	25	14
China	11	6
South Korea	1	0
Total:	58 543	113 152

(Source: Eurostat)

Total production capacity of ethyl acetate within the EU, split into countries:

Great Britain	(220,000 tonnes/year).
Spain	(60,000 tonnes/year).
Sweden	(35,000 tonnes/year).
Belgium	<u>12,000 tonnes/year</u>
Total:	327,000 tonnes/year)

(Source: ECN (European Chemical News) 10 August, 2004)

Of the total capacity, about 90% is used for actual production. The total European production can therefore be estimated at about 294,000 tonnes. Exports are estimated at about 10-15%, which leads to the total production in the EU, which is consumed in the EU, being estimated at 250-264,000 tonnes. In the event of the disappearance of Company A from the market, the company's share of the market would be replaced by increased import volumes as there is a production deficit of ethyl acetate within the EU. If Company A cannot continue its production of ethyl acetate, this will lead to noticeable disturbances to the ethyl acetate market.

5.7 Bioethanol projects

This application only refers to ethanol for chemical conversion, but it is difficult to leave out other market segments that are threatened if Company A cannot continue its chemicals activity. Today, Company A is involved in many projects supported by EU funds and national funds. This part of the company's activity will also be affected if chemical production cannot be run in a competitive manner.

The most tangible example is the pilot plant that was commissioned in the autumn of 2004. It is a research plant where low-grade forms of energy such as sawdust, forest chips and recycled fibres are converted to high-grade energy such as ethanol. The pilot plant for the production of ethanol based on cellulose as a raw product is enclosed within Company A's premises and is run by the company's staff. All the necessary infrastructure is connected to the company's chemical production. This means that the Pilot Plant will have to close if the company closes down its chemical production. The pilot plant is one of three research projects that the Swedish Energy Agency is prioritising and the objective is a full-scale plant being built within the country starting 2010-2012. All scientific investigations globally show that cellulose is by far the best raw product for the production of bioethanol, in terms of both cost and the environment. The pilot plant involves an investment of EUR 16 million. 74 % is coming from the Swedish Energy Agency, 17 % through EU subsidies and 9% from trade and industry, including the regions energy companies. Company A is contributing EUR 5 million in the form of infrastructure.

There are also a number of other projects that Company A is actively involved in. These projects are presented in Appendix 5. In total, we are dealing with investment costs of about EUR 50 million. More than SEK 13 million is coming from EU grants. It should be against the EU's principles to first provide grants with joint EU funds to various projects

and then, the next minute, to make decisions that are contrary to the purpose of these investments.

Recommendation

The Swedish authorities strongly recommend the approval of this application based on the following:

If the authorisation regarding importation of ethanol under PCC into three different chemicals i.e. ethyl acetate, acetaldehyde and acetic acid is not granted, the company will have to close down and 100 people will be made unemployed. This will have a severe negative impact since the company is situated in a part of Sweden which already has high unemployment. The closure of the company will also have a negative impact on the company's main client, situated in another part of Sweden that will be forced to lay off around 50 employees.

The company is the only EU company that produces these chemicals which are based on sustainable raw materials.

It is not reasonable that the high tariff rates for an agricultural product like ethanol, combined with the new market regulation makes it impossible for companies to continue producing chemical products for which the tariff protection has been fixed from a totally different point of departure.

If the company closes down a monopoly situation could arise in the EU's acetaldehyde and ethyl acetate market.

The company's chemical production is based on imported raw ethanol. The ethanol produced within the EU is of too high a quality.

The EU has invested in the pilot ethanol plant where the company is responsible for operation and maintenance. If the authorisation is not granted, the pilot plant will also have to be closed down.

Authorisation is only needed for a short period of time. In 5-6 years the company will be able to produce bioethanol from cellulose derivate.

Finally, the Biofuels Directive sets reference values of a 2% market share for biofuels in 2005 and 5.75% share in 2010. However, the Commission document "An EU strategy for Biofuels" states that the 2005 target share of, 2% biofuels, was not achieved at most only 1.4%¹. EU demand for biofuels greatly exceeds production within the EU. In the near future, the EU will be forced to import ethanol to fulfill the goal of the Biofuel Directive.

¹ Communication from the Commission, Brussels 8.2.2006, COM(2006) 34 final.

Appendix 1

PURCHASING SPECIFICATION, RAW MATERIAL - FERMENTED ETHANOL

<u>Analysis</u>			<u>Method of analysis</u>
Ethanol	% by volume % by weight	min 91,5 min 87,6	GC-method
Appearance		clear, colourless liquid without particles	ASTM D 2090
Water acc. to Carl Fisher	% by weight	max 5 – 7,5	SS-ISO 760
Acidity 1388-2 (as acetic acid)	% by weight	max 0,002	SS-ISO
Aldehydes (as acetaldehyde)	% by weight	max 0,6	SS-ISO 1388-4
Crotonaldehyde	% by weight	max 0,2	GC-method
Diethylether	% by weight	max 0,3	GC-method
Methanol	mg/l	max 80	GC-method
Evaporation residue	mg/l	max 15	SS-ISO 759
Total Sulphur	mg/l	max 1	ICP-AES
Fusel oil	mg/l	max 1 500	GC-method
Ethylen polymers	% by weight	max 0,1	
Ethyl esters	% by weight	max 0,15	GC-method
Diacetyl	mg/l	max 10	GC-method
Chlorides	ppm	max 1,5	AMSE 1138

It is only allowed with trace of hydrocarbons that might be expected in fermented ethanol

Appendix 2

SALES SPECIFICATION ACETALDEHYDE

			<u>Method of analysis</u>
Acetaldehyde	% by weight	min 99,0	AMSE 1108, GC-method
Appearance	Clear, colourless liquid		ASTM D 2090
Acidity (as acetic acid)	% by weight	max 0,2	AMSE 1113

The seller does also guarantee following properties, although not tested on each delivery:

Density (D 20/4)	g/ml	0,778-0,780	SS-ISO 758
Evaporation residue	g/100 ml	max 0,002	AMSE 1124
Rate of evaporation (Etylether = 1)		1,3	Accepted from literature
Flashpoint	°C	-40	Accepted from literature
Colour	Hazen	max 10	AMSE 1102

Appendix 3

SALES SPECIFICATION ACETIC ACID (GLACIAL)

			<u>Method of analysis</u>
Acetic acid	% by weight	min 99,3	SS-ISO 753-2
Appearance		Clear, colourless liquid	ASTM D 2090
Colour	Hazen	max 5	AMSE 1102
Water	% by weight	max 0,3	SS-ISO 760
Density (D 20/4)	g/ml	1,048-1,052	SS-ISO 758

The seller does also guarantee following properties, although not tested on each delivery:

Iron	mg/l	max 1	KA 12.000
Sulfate	mg/l	max 5	KA 30.102
Chloride	mg/l	max 5	KA 30.12
Evaporation residue	g/100 ml	max 0,01	AMSE 1124

Appendix 4

SALES SPECIFICATION ETHYL ACETATE

			<u>Method of analysis</u>
Ethyl acetate	% by weight	min 99,8	AMSE 1109, GC-method
Ethanol	% by weight	max 0,04	AMSE 1109, GC-method
Appearance		Clear, colourless liquid	ASTM D 2090
Colour	Hazen	max 5	AMSE 1102
Water	% by weight	max 0,03	SS-ISO 760
Density (D 20/4)	g/ml	0,899-0,901	SS-ISO 758
Acidity (as acetic acid)	% by weight	max 0,005	AMSE 1115

The seller does also guarantee following properties, although not tested on each delivery:

Evaporation residue	% by weight	max 0,0011	AMSE 1124
Acid value	mg KOH/g	max 0,05	AMSE 1133
Refractive index	n_D^{20}	1,3720 (typical value)	Accepted from literature
Odour		Characteristic	AMSE

Bio-ethanol projects that company A participates in

The Ethanol pilot plant

The ethanol plant is a research and pilot plant where low-grade energy sources such as sawdust, wood chips and recycled fibres are converted into high-grade energy such as ethanol. The goal is to create efficient and low cost technology to produce ethanol and energy for heating and electricity from these materials, which can replace the fossil fuels we have today.

An investment of EUR 16 millions; 74 % from the Swedish Energy Agency, 17 % is a contribution from the EU and 9 % from the industry (the energy companies in the region for example). Company A has invested EUR 5 millions in infrastructure.

Company A is responsible for the operation and maintenance of the plant and for environmental permits.

Klimp (Climate investment program)

The Government support to climate investment program, Klimp, will stimulate local authorities, companies and other participants to make long-rang investments to reduce the green house effect. Klimp is part of the work to achieve Swedens climate goal. Klimp is locally working with extension of the infrastructure for the ethanol fuel E85.

An investment of EUR 54 000 for this local project, which is Government support.

Company A contributes with ethanol fuel and transfer of knowledge.

BEST (BioEthanol for Sustainable Transport)

The BEST proposal will demonstrate an extensive substitution of petrol and diesel to bioethanol in both light and heavy vehicles. The project will simultaneously introduce bioethanol for transport on a large scale in several European countries, in order to achieve market breakthrough for ethanol-fuelled vehicles. The demonstrations of bioethanol vehicle fleets in BEST will be varied out in close co-operation between cities/regions, fleet owners, car manufacturers, fuel producers and fuelling stations. Brazil and China are also participants in this project.

An investment of EUR 25 millions; 40% is a contribution from the EU and 60% is from Government support in Sweden and the industry.

Company A contributes with deliveries of ethanol fuel for buses within the EU and support the extension of the infrastructure for E85. Company A also works with development and introduction of bio diesel based on ethanol and transfer of know how.

Bio East

Bio east is a project to support bio fuel to Greece with raw material from Eastern Europe (Rumania, Ukraine and Bulgaria). The goal is to increase bio fuels in Eastern Europe.

An investment of EUR 79 089, which is supported from the EU.

Company A contributes with transfer of technical know how, with Swedish experience.

BioFuel Region

BioFuel Region is a regional co-operation with focus on bio fuels from cellulose. The goal is to become a world leading region and serve as a global model to the adjustment of a transport system based on bio fuel from cellulose.

A national investment of EUR 2 millions; from the industry and the local authorities and country councils.

Company A contributes with ethanol fuel and transfer of knowledge.

Hektor

Hektor is a consortium for purchasing of ethanol buses.

An investment of EUR 322 600, which is equally shared between the county council in Stockholm, SL and company A.

The result from this consortium is that SL has ordered 160 new ethanol buses for Stockholm and there are tests running with ethanol buses in London, Madrid, Barcelona and Sao Paulo.

Summary

Company A is the only company in Europe with experience from all links in the chain (raw material, production, distribution, vehicles, rules and market). Therefore it would be very unfortunate if this organisation would have to close down as a result of the existing agricultural policy.



EUROPEAN COMMISSION
DIRECTORATE-GENERAL
TAXATION AND CUSTOMS UNION
Customs Policy
Transit, suspensive regimes and supply chain security

Brussels, 23 March 2006

TAXUD/1620/2006-EN

Working paper

CUSTOMS CODE COMMITTEE

Section for Customs Procedures with Economic Impact

Processing under Customs Control (PCC)

(Processing of ethyl alcohol classified within TARIC Code 2207 10 00 10 /
examination of the economic conditions in accordance with Article 552(2) CCIP)

This document will be examined at a forthcoming meeting of the Committee.

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PROCESSING UNDER CUSTOMS CONTROL (PCC)

Importation of undenatured agricultural ethyl alcohol under PCC.

Subject: Application to grant an authorisation for PCC of undenatured ethyl alcohol (ethanol) classified within TARIC Code 22 07 10 00 10 for processing into a product called Petrocreen SC 16 classified within TARIC Code 3820 0000 00. The application has been submitted by the Belgian authorities.

The application on behalf of Petrochem Carless Limited is a new application for the processing under the PCC procedure of non-denatured ethyl alcohol obtained from agricultural products into antifreeze and liquid defrosting preparations known under the commercial name "Petroscreen SC16".

Processing would consist firstly in the denaturing of the non-denatured ethyl alcohol by the addition of 20 ppm (2%) [*sic*] denatonium benzoate (Bitrex) in a single production process when the non-denatured ethyl alcohol is pumped into storage tanks and secondly its transformation into the abovementioned product by the addition of certain quantities of ethylene glycol and so-called SW Tensio 100-B.

The intention is to terminate the PCC procedure once the imported goods have undergone the abovementioned production processes in full.

Since the processing could therefore go further than the processing permitted under Figure 3 of Annex 76, Part A of the Community implementing provisions, the attached application is being sent to you in accordance with the terms of Article 552(2) and Annex 76, Part B of the implementing provisions with the view to consideration of the economic conditions.

EXTRACT FROM THE APPLICATION

7. GOODS TO BE PLACED UNDER THE CUSTOMS PROCEDURE (goods to be processed):

CN Code (1)	Technical and/or commercial name (2)	Country of origin	Estimated quantity per calendar year (3)	Estimated value per calendar year (4)
2207100010	Ethyl alcohol 95% of agricultural origin non denatured	Brazil, Colombia, Cuba, Guatemala, Ecuador, South Africa, Zimbabwe, Pakistan, India, China, Ukraine, Belarus, etc.	15 000 000 Ltrs	€7 400 000 (if USD 580/m ³ CIF Ghent)

8. PROCESSED PRODUCTS

CN Code (1)	Technical and/or commercial name (2)	Rate of yield (3)
3820000000	<u>Petroscreen SC 16</u> , consisting of +/- 92.2% ethanol +/- 4.8% water 2% ethylene glycol 1% tensio-active (in conformity with BTI BED.T. 227.052) 20ppm denatonium benzoate (Bitrex) are added to the ethanol	100% (possibly very small loss during pumping and blending)

9. DETAILS OF THE PLANNED ACTIVITIES

Processing:

- (a) Placing of the ethanol (T1 status) in tanks 824, 811, 812 or 814
- (b) Addition of 3% Petroscreen SC16 premix consisting of:
 - +/- 66.692% ethylene glycol
 - +/- 33.233% SW Tensio 100 B
 - +/- 0.075% denatonium benzoate (Bitrex)
- (c) Pumping around in tank until a homogeneous product is obtained
- (d) The free product obtained after processing “Petroscreen SC16” is either delivered as such to customers (see attached specification) or used for the manufacture of window-cleaning products by:
 - addition of other detergents, whether or not diluted (amongst other SC16 Plus, RSV 2102 E: see attached specifications)
 - addition of glycols and detergents in order to satisfy the flash point requirements, whether or not diluted (amongst others SC2300E, RSV 2301 E, RSV 2302 E, RSV 2304 E: see attached specifications).
 - addition of artificial fragrances and dyes in accordance with the requirements of our customers
- (e) Bulk sale in tanker lorries delivered to or collected by our customers in continental Europe.

10. ECONOMIC CONDITIONS

(a) Production in Brazil/shipping of Petroscreen SC16 Premix: At the moment Petroscreen SC16 is produced in Brazil, which means that we have to ship the Petroscreen SC16 Premix to Brazil and bear the attendant logistical and operational costs (oversees transport, insurance, import clearance, storage at port and inside the country, demurrage, sampling, surveying etc.) totalling around €20 000 per production of 4 000 mt SC 16 (= consumption 132 mt Petroscreen SC16 Premix).

(b) Production in Brazil/premium for blending into SC16: At the moment our suppliers are using the availability problem with ethanol to charge us an average additional cost of around USD 60 per m³ (= roughly €63 per metre) above the going market price for ethanol. For each batch produced this therefore means an additional cost of 4 000 mt x 97% ethanol quantity x €63 per mt = €245 000.

(c) Volatile market and purchase flexibility: The production of Petroscreen SC16 in Brazil causes a lack of flexibility and freedom since:

- the time lapse between the shipping of the Petroscreen SC16 Premix to the production site (Brazil) and the arrival of the Petroscreen SC16 in Ghent is some 3 to 4 months. As a result we unfortunately do not have the flexibility we need to be able to wait for generally expected falls in prices before concluding a purchase agreement;
- it is very difficult to buy from “third” suppliers and blend SC16 (since investments are needed in order to add the Petroscreen SC16 Premix);
- we cannot buy at “spot” rates from various producers (worldwide) and therefore have to estimate our volume requirements well in advance, which on the one hand entails a great risk and on the other limits us as regards unexpected sales opportunities;
- in recent years the ethanol market has been relatively stable and we have been able to produce Petroscreen SC16 in Brazil at competitive rates. However, the ethanol supply situation is now very difficult worldwide mainly because of the high fuel prices and the steep rise in consumption on the local Brazilian market (for flex-fuel engines which can also run on ethanol instead of petrol; see attached Article) on the one hand and historically high sugar prices on the other. As a result our Brazilian suppliers are currently not disposed to make us a competitive offer since they are able to sell their quantities easily on the local market at considerably higher prices than are currently to be found on the international market.

(d) Importing ethanol: This is not an option since the import duty on ethanol is still much higher (€10.2/hltr = roughly 4 850 Kltr x €102/m³ = €489 600) than the total costs of producing of Petroscreen SC16 in Brazil and the importing of this product into Europe (roughly €265 000).

(e) Processing under customs control (PCC) : This enables us to spread our purchases out more strategically and to bring in ethanol T1 and process it under PCC into Petroscreen SC16, after which the product obtained will immediately be cleared with customs subject to an import duty of 6.5%, viz:

- Ethanol T1 undenatured:	
roughly €590/mt x 97% x 4KT =	roughly €2 289.200
- Petroscreen SC16 Premix: free product	€ 0

Total value for calculation of import duty	€2 289 2000
Import duty at 6.5%	<u>€ 148 798</u>

(f) Competitors : At the moment there are a number of rival firms enjoying the advantages of a PCC authorisation.

(g) Employment : The production of Petroscreen SC16 in Ghent will clearly contribute to employment both at Petrochem Carless bvba, Oiltanking and SGS as well as in our logistic departments.

(h) Possible retrieval of potable alcohol : This does not apply owing to the percentage of 29 ppm denatonium benzoate (Bitrex) and tensioactive products (soap) and ethylene glycol (toxic).