

TIMING IN A CREDITING SCHEME FOR RENEWABLE FUELS

In a report for the German Ministry for Economic Affairs (BMWi),¹ Frontier has proposed a crediting system for renewable fuels which would allow OEMs to voluntarily finance additional renewable fuel (on top of the volumes mandated under RED II) and count the corresponding emission reductions against their fleet targets. Neste, NGVA, CNH Industrial, Mahle, Bosch and eFuels Alliance have asked Frontier to produce this note on the timing of the monitoring and verification process for such a crediting system.

Timeline for crediting system needs to consider Fleet Regulation and national RED II implementation

We have recommended to align the verification and monitoring for the crediting system with existing fuel sector regulations (RED and RED II)² to avoid two parallel systems with different standards and additional administrative costs for a separate certification scheme.

This has important implications for the timeline:

- The crediting system links directly into **Fleet Regulation** which sets a timeline for reporting emission and registration data by Member States and the notification to OEMs by the European Commission.³
- The timeline needs to be aligned with **National RED II implementation** which involves different timing and institutions in individual Member States (see below for further details).
- The timeline needs to consider **further RED II implementations**, in particular regarding the Union-wide database for renewable fuels.⁴ This database could be used to prevent double counting against the renewable fuel quota (of the fuel supplier) and the fleet target (of the OEM) by adding an information whether the biofuel volume is used towards fuel supplier obligation or OEM fleet targets (via crediting).

¹ In May 2020, Frontier Economics Ltd. ("Frontier") published a study on behalf of the German Federal Ministry for Economic Affairs and Energy (BMWi) where we develop a crediting system for renewable fuels, available online https://www.bmwi.de/Redaktion/DE/Downloads/C-D/crediting-system-for-renewable-fuels.pdf?__blob=publicationFile&v=4. In a subsequent study for Neste, we have developed scenarios to explain how such a crediting scheme would impact different stakeholder groups and the environment, available online <https://www.frontier-economics.com/media/4347/crediting-system-for-renewable-fuels.pdf>.

² RED (Directive 2009/28/EC) establishes national databases and a certification scheme based on common principles (sustainability criteria, mass balance system). This is further developed by RED II (Directive (EU) 2018/2001) and delegated acts (sustainability criteria for synthetic fuels (RFNBOs), Union database to ensure instant data transfers and harmonisation, see Recital 84).

³ Regulation (EU) 2019/631, Art. 7.

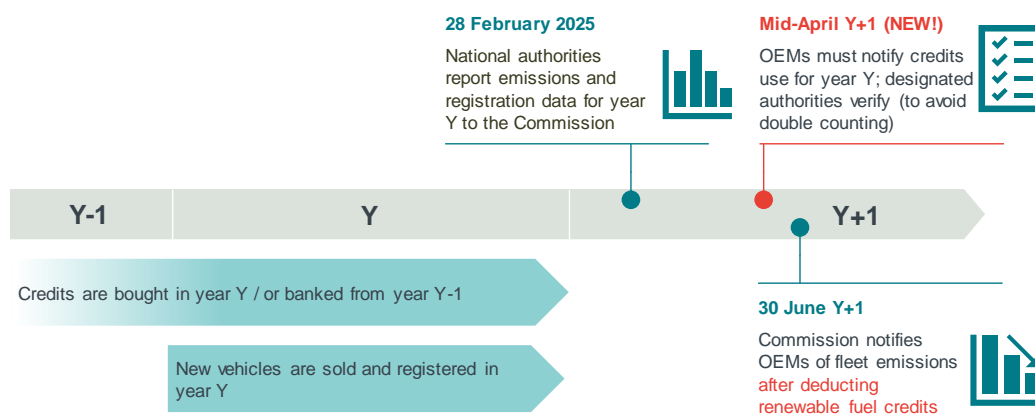
⁴ In future, all RED II-compliant renewable fuels enter a single Union-wide database in accordance with RED II, Art. 28 (2).

Below we describe a timeline for the crediting system which takes these considerations into account.

Timeline for crediting scheme

We illustrate the timing, using the example of a new vehicle that is sold and registered in year Y. The timeline in Figure 1 is built around the current timing of the Fleet Regulation and annual verification procedure⁵ for credits (as in the national implementation of the RED fuel supplier obligation, see Table 1).

Figure 1 Timeline from an OEM perspective



Source: Frontier Economics

Note: New elements from the crediting system are marked red. The remaining elements of the timeline is taken from current Fleet Regulation. The general timing of the credit generation and verification process is irrespective of whether credits count towards average fleet emissions or are assigned towards an individual vehicle.⁶

Below we outline the **timing** for crediting against the fleet against average fleet emissions (option 1) in **year Y**:⁷

- **Throughout year Y:** Credits can be purchased at any time until the end of the same year credits are to be used. A key feature is that credits must be procured before they can be used. This ensures that credits are verified before use and prevents double counting against other legal obligations (such as the RED II-quota for suppliers). OEMs can also use valid credits from the previous year which have not been used yet (by any OEM or fuel supplier).
- **By the 28 February year Y+1 (from Fleet Regulation),** national authorities (e.g. the KBA in Germany) must report emissions and new registration data for the preceding year to the Commission.⁸ Emissions are reported prior to any reductions from crediting.

⁵ Alternatively, an ongoing verification procedure intra-year could be implemented where credits must be surrendered and verified year-round (and not the following year) when low/zero-carbon vehicles are sold. This approach generates additional administrative efforts but lets the OEM offer low-emission vehicles immediately after credits have been verified.

⁶ The main difference is the time credits are generated: credits must be verified before an assignment towards individual vehicles (labelled option 2 in our BMWi report). This means that credits for assignment in year Y can have to come from the previous year (Y-1). Alternatively, an intra-year verification procedure could be introduced to remove this time lag, see footnote 5.

⁷ For individual crediting (option 2), only credits from the previous year Y-1 are assignable to individual vehicles since they have already been verified (by April of year Y).

⁸ Regulation (EU) 2019/631, Art. 7.

- **By mid-April of year Y+1⁹ (new, aligned with national RED implementation)**, after reporting the registration data to the Commission, OEMs and fuel suppliers must notify the designated national authorities for renewable fuels (see Table 1, right column, for currently responsible authorities in different Member States) about the number of renewable fuel credits they intend to credit against their fleet emissions for the preceding year. Only credits from year Y or banked unused credits can be used.¹⁰ The designated national authorities verify that OEMs have procured enough admissible credits and that the credits have not been surrendered by another obligated party.
- **By 30 June Y+1 (from Fleet Regulation)**, the Commission notifies OEMs of the average specific CO₂ emissions, target emissions and the credited reduction amount from renewable fuels for the preceding calendar year.

In the next section, we provide further details on selected Member States as a proof of concept.

Proof of concept – Timeline for current fuel supplier obligation in different member states

Table 1 summarises the timeline and institutions involved in the renewable obligation scheme in different Member States. This overview shows that the **proposed timing** for the crediting scheme (Figure 1) can **work in practice** with no or only minor adjustments:

- Obligated parties (fuel suppliers) must fulfil their renewable fuel obligation with sales to final customers in the very same year;
- Some countries allow banking of unused credits into the next obligation period (year);¹¹
- In most of the Member States, the deadline for fuel suppliers (as the currently only obligated party) is in or before April.

Note that the **timeline includes some flexibility** – companies (fuel suppliers, OEMs) that want to participate in a crediting scheme can submit the necessary information earlier than the national deadlines listed in Table 1. Furthermore, these deadlines are often set through ordinances or instructions to the national authorities which could be adjusted relatively easily to accommodate a crediting scheme if Member States want to enable participation.

⁹ This is the date set in German law (BlmSchG) by which quota trading contracts for the previous year must be submitted to the main customs office in Cottbus to be counted against the fuel supplier quota.

¹⁰ OEMs will have to assess throughout each year how many vehicles they have sold, how this impacts their average fleet emissions and how many credits they may need to meet their target. The bankability of credits (subject to validity in the national renewable fuel obligation scheme) ensures that no credits are lost, and tradability of credits enables OEMs to react to unexpected changes in their sales and emission data.

¹¹ For example, Germany and Spain. In Spain, fuel suppliers can only transfer biofuel certificates relating up to 30% of target.

Table 1 Overview – fuel supplier obligation in selected Member States

MS	By when do obligated parties report volumes (renewable, conventional) to the authorities?	By when do national authorities confirm obligation has been met?	Involved authorities (registry / database for renewable fuels, etc.)
Germany	15 April Y+1 ¹² (renewable fuels reported monthly)	within a reasonable period after submission (not further specified)	<ul style="list-style-type: none"> ■ Federal Office of Agriculture and Food operates RE fuel database Nabisy ■ The Main Customs Office verifies obligation
Finland	31 March Y+1	No notification but complement request (even years later) if quota not fulfilled	Energy Authority (Energiavirasto)
Sweden	1 April Y+1	-	Energy Authority (Energimyndigheten)
Lithuania	15 May Y+1	-	Estonia Energy Authority
Latvia	30 April Y+1	-	-
Netherlands	1 March Y+1	1 April Y+1 ¹³	<ul style="list-style-type: none"> ■ National Emissions Authority (NEa) administering the HBE system ■ Customs Authority and Statistics Office (CBS) are also involved
France	10 April Y+1 (renewable fuels reported monthly or quarterly ¹⁴)	Timeline not specified	<ul style="list-style-type: none"> ■ General Directorate of Customs (quantities, tax benefits) ■ Direction générale de l'énergie et du climat (DGEC) (durability of credits)
Spain	10 April Y+1 (provisional renewable fuels reported monthly)	1 June Y+1	Ministerio para la Transición Ecológica (MITECO)
Italy	31 January Y+1	<ul style="list-style-type: none"> ■ By 31 March Y+1: GSE releases the certificates ■ April - October Y+1: trade of credits ■ 1 to 31 October Y+1: GSE verifies compliance 	<p>GSE: Monitoring and verification</p> <p>All operations take place via the BIOCAR digital platform.</p>

Source: Frontier Economics, Neste

¹² Renewable fuels have to be reported monthly see https://www.ble.de/SharedDocs/Downloads/DE/Klima-Energie/Nachhaltige-Biomasseherstellung/Fragen.pdf?__blob=publicationFile&v=7, p.14. Fuel supplier have to report the total quantity of fossil fuels and biofuels sold to final customers in the previous year (this includes any biofuel credits bought from third parties), see § 37c (1) [BlmschG](#).

¹³ Claims of renewable fuels are verified by an independent third party, see <https://www.emissionsauthority.nl/topics/claiming-deliveries---energy-for-transport/year-end-closing-of-energy-for-transport-claims>.

¹⁴ <https://www.douane.gouv.fr/service-en-ligne/operation-sur-les-produits-energetiques-isope>