Trade Remedies

AS0067 Countervailing investigation concerning Hydrotreated Vegetable Oil originating in the United States of America

Response from UKIFDA to the Statement of Essential Facts (SEF)

1. Introduction

UKIFDA is the trade body which represents the liquid fuel distributors in the UK. Currently our c100 members distribute liquid fuels to over 1.7m homes and 250,000 businesses. Today most of these liquid fuels are fossil based and we have been supportive of the various mandates put in place by the UK Government to reduce carbon emissions including the Renewable Transport Fuel Obligation (RTFO), the Sustainable Aviation Fuel (SAF) mandate and the anticipated Renewable Liquid Heating Fuel Obligation (RLHFO).

The industry currently directly employs 10,000 people.

Our interest in this investigation is based on our objectives to ensure the industry has the maximum capability to help our customers decarbonise, the continuing provision of well-paid employment and the continuation of the positive economic impact of the wider sector including refineries and fuel terminals.

2. Summary

Having read the available evidence presented to the TRA and the SEF conclusions, UKIFDA is of the opinion that the objectives of UKIFDA as highlighted above will be undermined by the draft recommendations of the TRA.

Imposing duties on US HVO imports would go against the UK's economic and environmental interests and would damage its ability to decarbonise.

Imposing tariffs will unquestionably in the absence of other factors increase the cost to the consumer and will add to the already heavy burden of unbalanced carbon taxation on the refining sector. This increased cost of fuel will have wider implications on the UK economy. We note that the TRA conclusion is that diesel prices alone could rise by 1% which is the equivalent of 1.5 pence per litre. We also note no evidence has been put forward to really determine how HVO is used in the UK and therefore the impact of tariffs may be much higher. If it continues to be sourced from the US then the effect of duties on 100% HVO will be an increase of approximately 20 to 23 pence per litre.

It has been shown by some of the evidence presented that the UK does not produce any HVO and that one of the obligation methods to encourage the reduction of carbon emissions (RTFO) is now at a level where due to compatibility restrictions it is unlikely to be met by FAME alone. As such the UK will have to import HVO at least in the short term

in order to meet the current and future decarbonisation obligations. By imposing tariffs on one import route such as the US this may lead to overreliance on another import route, increased risk, volatility and therefore prices.

The investigation's draft recommendations are based on the premise that FAME and HVO are similar products with similar markets when the evidence presented shows beyond doubt that the production, physical and chemical characteristics of each product are very different which lends itself to very different markets for each product. The investigation has not adequately broken these markets down and has largely concentrated on the RTFO led market and ignored the discretionary market which will play an ever more important role in meeting both the obligation and UK's decarbonisation targets.

In addition, the initiation of this investigation is itself questionable. There is no domestic production of HVO in the United Kingdom, and the definition of the UK industry has been constructed solely by treating FAME as a like product to HVO. As set out in previous TRA determinations and reflected in the evidence before the TRA in this investigation, HVO and FAME are traded as distinct commodities with different characteristics, uses and markets. If HVO is correctly defined as the product under consideration, the standing thresholds required to initiate the investigation could not have been met.

One of the central tenants of the investigation was the presence of an incentive scheme in the US called the Blenders Tax Credit (BTC) which no longer exists and the new scheme is very different.

In the TRA's final recommendations in the previous US HVO investigation (November 2022), the TRA highlighted the divergent production processes, quality, technical and chemical characteristics of HVO and FAME. It also recognised that HVO has uses for which FAME is not appropriate.

At the time we supported the conclusions of the TRA for the following reasons:

- Hydrotreated Vegetable Oil (HVO) is currently not produced in the UK and therefore the country is reliant upon imports
- HVO can be used in markets that currently cannot be served by FAME including the home heating market and the heavy transportation market
- HVO and FAME are not alike:
    - The manufacturing processes are very different
    - Chemically they are very different
    - HVO has better energy density
    - HVO has a much lower cold filter plugging point and is also safe in warmer conditions

- HVO has a much higher storage life, is less susceptible to degradation and less susceptible to water absorption

This conclusion is reinforced by the TRA's own prior findings, as highlighted in recent submissions by Valero Energy Ltd. In the TRA's Biodiesel Transition Reviews (TD0004 and TS0005), the Authority expressly determined that HVO and FAME are distinct products and that it was therefore appropriate to conduct separate assessments, noting that "research, questionnaire replies, and information from verification confirmed that these products are traded as distinct commodities in the biofuels market". There have been no material changes in the production processes, technical characteristics or market dynamics of HVO and FAME since those determinations that would justify a departure from this established approach. Treating HVO and FAME as comparable or like products in the present investigation therefore represents an unexplained inconsistency with the TRA's own prior practice and undermines the robustness of the current assessment.

Our view from previous investigations has not changed and the evidence produced in this investigation has merely underlined our position.

3. **Review of the Market**

Low Cabon Liquid Fuels harbour significant potential that can play a vital role in achieving the UK's 'Net Zero' emission ambitions.

HVO can lead to an 80-90% reduction in carbon emissions compared to regular fossil fuels.

The TRA has acknowledged that HVO is used in contexts where FAME is not appropriate

The evidence presented in this investigation shows that HVO is used where FAME cannot be used or when customers strive for enhanced environmental benefits – often termed the discretionary or voluntary market. This is predominantly driven by the physical and chemical differences in the two products, and the fact FAME is restricted by engine compatibility (the blend wall).

HVO is now used in existing vehicle fleets including local authority vehicles, construction activities, port facilities and is distributed via a mature downstream oil supply chain of refineries, terminals, pipelines and service station forecourts. It also, unlike FAME, has the potential to be used in the off-gas grid home heating sector and marine environment.

Unlike FAME type fuels, HVO does not require blending and can be used as a 100% drop in alternative. It is for this reason that many end users in the last few years have made the decision to move from the incumbent fossil fuel to HVO. However, this is ultimately a voluntary action and is very much dictated by price.

Currently the UK produces no domestic HVO and therefore the only source is imports. The decision to add tariffs on to imports will increase the price.

Any increase in price of renewable fuels will slow uptake and hamper the transition from fossil fuels.

The UK refining sector is already under significant pressure. In the last 12 months the number of refineries has reduced by a third with the loss of significant direct and indirect jobs but also has damaged the UK's energy security and resilience.

The current recommendations will damage the remaining refiners in the UK by making it harder for them to achieve the binding obligations under legislation such as the RTFO, this will put a further question mark on the sector.

4. **Likeness**

The TRA has received significant evidence that HVO and FAME should not be treated as like products.

End users have commented:

- HVO is likely to have a long-term role to play in difficult-to-decarbonise sectors.
- HVO can meet the EN15940 paraffinic diesel specification, which forms the basis for manufacturers allowing it's use as a "drop-in" fuel in the vast majority of NRMM engines.
- HVO does not typically require engine modifications or invalidate warranties.
- In contrast, biodiesel does not meet EN15940 standards due to differences in chemical, physical and performance properties.
- Most manufacturers restrict the use of biodiesel blends above B7 (standard white diesel) in off-road engines, invalidating warranties if higher blends are used.
- Where higher blends are permitted, enhanced fuel management is usually required due to concerns surrounding filter blockages, fuel gelling in low temperatures, and potential damage to fuel system components.
- Although machinery and fuel systems can be modified to accommodate higher biodiesel blends, such modifications cost several thousand pounds per machine and may compromise manufacturer warranties.

Fuel suppliers have commented and provided third party research:

- FAME is produced via transesterification, where triglycerides react with methanol to form methyl esters (FAME) and glycerol. This process relies on alcohol (typically methanol) and results in an oxygenated fuel. In contrast, HVO is produced through hydrotreatment of triglycerides or fatty acids, using hydrogen as a key reactant. This yields a hydrocarbon fuel chemically similar to

fossil diesel. These fundamentally different processes result in fuels with divergent chemical compositions and performance characteristics.

- A producer of FAME cannot readily switch to HVO without a complete overhaul of infrastructure, requiring years of investment and preparation.
- HVO is similar to fossil diesel. It contains no oxygen and has a similar energy content per kg. FAME, on the other hand, contains approximately 11% oxygen by weight, leading to chemical instability and a higher tendency for degradation as well as lower energy content.
- FAME's oxygen content impacts several performance and emissions-related limitations, while its density is higher than that of diesel, which affects engine compatibility and blending limits.
- FAME has limited direct-use and logistical challenges which results in it being limited to a maximum concentration of 7% in UK & Europe (based on the EN 590 diesel standard):
    - As a powerful solvent, it can degrade rubber in fuel lines and loosen sediments in fuel tanks and pipelines, leading to clogged engine fuel filters.
    - FAME has a relatively high cloud point and cold filter plugging point (CFPP), which means wax crystals form at cooler temperatures, making its use problematic in cold climates. Therefore, it generally cannot be stored or transported in regular petroleum liquid tanks and pipelines without temperature management.
    - FAME can also absorb water, which may lead to microbial growth in storage tanks, causing subsequent corrosion or clogging problems.
- HVO can be stored, handled and blended just like fossil diesel and has a much longer storage life than FAME
- FAME often cannot be stored or transported in regular petroleum liquid tanks and pipelines so has to be transported in specialised heated equipment. The assertion in the TRA document is therefore incorrect. There is a significant difference in distribution channels for HVO and FAME For this reason, the blending of FAME into Diesel fuel is conducted largely at large scale distribution hubs and refineries. The downstream storage, distribution and sale of FAME (blended or neat) is therefore severely limited to specialist operators or producers.

Based on the above, it is evident that HVO and FAME differ across the core criteria of the likeness assessment and that FAME has little or no ability to replace HVO in final biodiesel products.

5. **Blenders tax credit (BTC)**

It was clear from the initial application, that one of the central tenants of the TRA investigation was the presence of an incentive scheme in the US called the Blenders Tax Credit (BTC).

The BTC expired at the end of 2024 and has been replaced by the Clean Fuel Production Credit (IRC §45Z). Recent legislative changes restrict 45Z eligibility for fuel produced after 31 December 2025 where foreign feedstocks are used (i.e. feedstocks not produced or grown in the US, Mexico or Canada), materially reducing the incentive for exporting HVO to markets such as the UK compared with the former BTC regime.

Given the evidence it is surprising that despite the fact this incentive no longer exists and its replacement is fundamentally and economically different, a recommendation of tariffs was still made.

6. **Financial impacts of the draft recommendation**

The evidence presented to the TRA shows there would be significant negative financial impacts to the UK.

Given there is no UK HVO production there is no UK industry that will benefit from the imposition of tariffs given the fact that FAME under the RTFO has reached or is nearing the blend wall and it is highly unlikely that HVO will become a cheaper option than FAME.

The TRA's own product control number (PCN) framework further demonstrates that injury cannot be properly assessed in this case. Imported HVO and domestically produced FAME are identified under distinct product categories, meaning there is no valid basis for price matching or undercutting analysis between the two. In the absence of any domestic production of HVO, it is not possible to calculate a meaningful injury margin attributable to HVO imports, and any assessment of injury based on FAME data risks conflating fundamentally different products and markets.

In practice, UK FAME producers do not compete with HVO in the same market. UK-produced FAME competes directly with imported FAME, both within the UK and across European markets, under the same EN590 blending framework and similar national compliance mechanisms. The imposition of duties on US HVO therefore does not protect UK FAME producers from unfair competition but instead restricts supply of a non-FAME fuel used in different applications, while UK FAME producers continue to face competition from imported FAME unaffected by these measures.

Imposing measures in these circumstances would be unreasonable and far from providing support to a UK industry would penalise consumers and business and provide an additional damping effect on UK efforts to decarbonise. Measures against imports of HVO from the US could significantly disrupt supply and lead to increased domestic

prices for HVO. Any increase in import prices will be passed on to customers and result in increased domestic prices for HVO in the UK.

The US is a significant source of HVO supply which may not be easily replaced by imports from other countries. This would most likely lead to an increase in HVO prices in the UK and would exposes us to the dominant position of the largest EU HVO producer. The risks associated with limited supply were starkly demonstrated by the sharp spike in HVO prices in late 2024, partly driven by reduced HVO availability following operational issues with this supplier.

Imposing tariffs will unquestionably in the absence of other factors increase the cost to the consumer and will add to the already heavy burden of unbalanced carbon taxation on the refining sector. This increased cost of fuel will have wider implications on the UK economy. We note that the TRA conclusion is that diesel prices alone could rise by 1% which is the equivalent of 1.5 pence per litre. We also note no evidence has been put forward to really determine how HVO is used in the UK and therefore the impact of tariffs may be much higher.

Given the evidence of financial harm to the UK and that no HVO is produced in the UK, it is surprising a recommendation of tariffs was still made.

7. **Impact on the RTFO**

The UK government has already signalled that given a declining road fuel market, to keep low carbon fuel volumes constant, obligation percentages would need to increase. Higher obligation percentages will be more challenging to meet given the blend limits that apply to E10 petrol and B7 biodiesel which is why the supply of HVO will become more important.

The TRA has failed to take into account the “blend wall” as described in their analysis. At 7%, with “double counting” waste-based Biodiesel can theoretically support an obligation of c14% maximum, though in practice other constraints mean the full 7% is not possible. As of 2026 the mandate will increase to 14.55%, therefore it will become more difficult for FAME to support this level alone. This deficiency will increase during the lifetime of these tariffs. Non-FAME biobased fuels will therefore take more prominent roles as mandated suppliers continue to meet their statutory obligation.

Imposing duties on HVO imports would risk undermining the RTFO framework, which was responsible for 54% of the overall transport emissions savings between 2018 and 2022.

Imposing tariffs on HVO would also risk progress being made in renewable marine fuel and also commercial and home heating – which was clearly signalled by the TRA in their previous decisions.

The discretionary market for HVO and other non-FAME based fuels has grown as end users have looked to reduce GHG emissions by reducing and substituting EN590 fuels from their operations.

The TRA has not considered the use of non-EN590 fuels such as EN15940 and the associated GHG reduction capacity increases these fuels can afford in its functional assessment. As such the TRA have failed to acknowledge the basic premise of the RTFO which is GHG reduction and therefore failed to identify that the functional similarities of FAME and HVO are limited up to a maximum blend ratio of 7%.

TRA has not presented data on the use of HVO in applications other than road transport in any granular detail such that it is able to assert that these applications are “minor” and are therefore not worthy of consideration. The fact that these applications exist for HVO and are difficult to access with FAME, clearly demonstrates non-equivalency.

Given the evidence of RTFO impact, it is surprising a recommendation of tariffs was still made.

8. **Impact on GHG Emissions**

HVO is marketed as a EN15940 fuel that affords an 80%+ GHG reduction and the FAME based blend lends itself to only a c6% GHG reduction. This has been ignored in the TRA analysis.

Given the evidence of GHG emission reductions, it is surprising a recommendation of tariffs was still made.