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Report Name: UCO Export Tax Rebate Terminated

Country: China - People's Republic of

Post: Beijing

Report Category: Biofuels, Oilseeds and Products, Livestock and Products, Grain and Feed, Climate Change/Global Warming/Food Security

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Report Highlights:

On November 15, the People's Republic of China (PRC) Ministry of Finance and the State Administration of Taxation announced that, effective December 1, the 13 percent export tax rebate for used cooking oil (UCO) under HS code 151800 would be eliminated. Consequently, FOB China UCO offers were withdrawn, and returned offers were priced at least $150/MT higher. This policy shift aims to redirect the bio-based diesel (BBD) industry from an export-focused model to a more domestic-oriented industry. Additionally, this change could create PRC export opportunities for sustainable aviation fuel (SAF), as the EU provisionally excluded SAF from proposed antidumping duties on July 19, 2024.

Background

On November 15, the PRC Ministry of Finance and the State Administration of Taxation announced that starting December 1, the 13 percent export tax rebate on UCO would be discontinued. Leading BBD producers have long advocated for this change, arguing that the tax rebate undermines the country's interests by favoring UCO exports over domestic consumption. It appears that this policy aims to facilitate the shift from export-oriented BBD production to a domestic focus that could be used within the PRC circular economy, reduce low-value feedstock exports, and promote higher-value SAF exports.

UCO Prices Adjust Dramatically

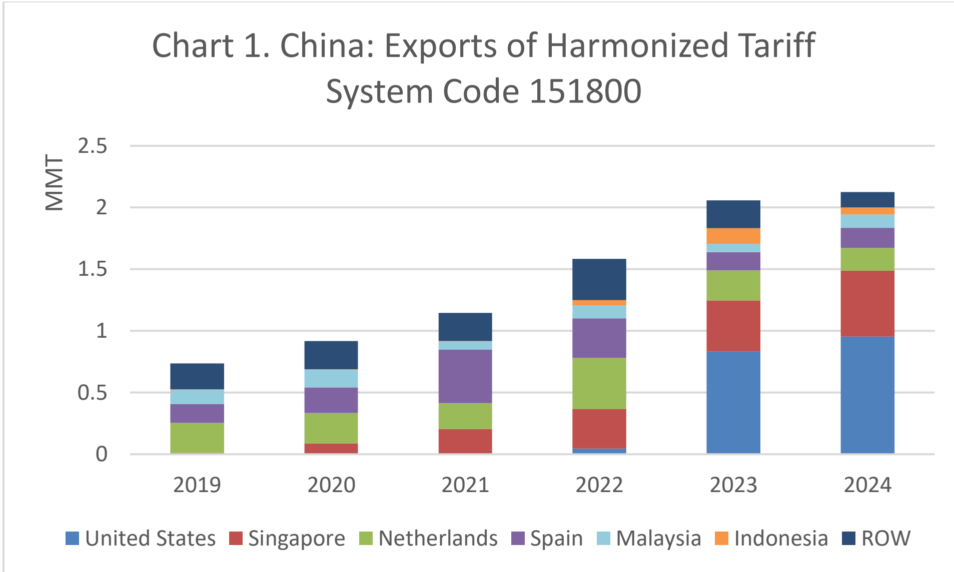
The policy announcement triggered immediate changes in UCO prices. On the procurement side, waste oil prices dropped significantly. In North China, export-quality brown grease, which averaged RMB 6,800 (~$940) per metric ton (MT) on November 15, fell 11 percent to RMB 6,100 (or ~$843)/MT by November 18. Gutter oil prices in East China also fell, declining by 6 percent to RMB 5,000 (or ~$691)/MT. Several processing plants have paused waste oil collection, awaiting further market developments.

On the sales side, leading Chinese UCO producers set initial December and January contract prices at $1,000–$1,050/MT, representing an increase of $100–150/MT over previous rates. Industry sources noted that FOB China UCO offers were rescinded, with new offers priced at least $150/MT higher. This change poses challenges for UCO traders, who rely heavily on the rebate for profitability. The estimated rebate loss for exporters ranges from $109–117/MT. Analysts anticipate significant price volatility in the coming months, leading to potential industry consolidation as smaller traders are acquired by larger firms.

Motivations Behind the Policy Shift

The primary objective of this policy appears to support the domestic BBD industry by ensuring a more stable supply of UCO feedstock. Exporting UCO has long been seen as low-value trade, exacerbating price competition among Chinese exporters on the international market. Additionally, the policy seemingly seeks to ease fiscal pressures on the government amid an economic slowdown and address concerns of dumping accusations from trading partners.

There are also reports that Chinese authorities are investigating abuses within the rebate system, where importers allegedly mixed palm oil acid with UCO to claim tax rebates fraudulently.



Source: Trade Data Monitor (TDM), LLC. HS Code 151800 is defined as "Animal, vegetable, or microbial fats and oils and their fractions…".
Used cooking oil (UCO): 1 MT = 1,043 liters of UCOME (UCO methyl ester, *i.e.*, UCO-based biodiesel).

Opportunities for Domestic BBD Producers
Ending the UCO export tax rebate signals a shift towards retaining more UCO within China, which may foreshadow the introduction of SAF mandates and other biofuel-supportive measures. While nearly 40 countries have SAF mandates, the PRC currently does not. The policy change should lead to a lower and more stable domestic UCO supply, encouraging producers to expand capacity or increase utilization rates. Cost savings from this policy could enable more significant PRC domestic investments in research and development of related downstream industries, improving competitiveness.

Additionally, challenges exist in the UCO collection infrastructure. EU Transport & Environment and the International Council on Clean Transportation conducted studies that estimated UCO collection rates ranging from 57 percent to 80 percent. These studies revealed that collection levels surpassed Chinese UCO exports and biofuel use during the periods analyzed (years 2019 and 2023). When applying these UCO collection rates to the supply potential estimates from the Economic Research Service (ERS) and the Foreign Agricultural Service (FAS), the projected collection volume ranges from 8.7 to 12.2 billion pounds.

Therefore, the maximum potential for UCO collection and for further expansion of BBD production capacity is enormous.

The government's supportive measures for domestic BBD, highlighted in the 2024 Biofuels Annual (CH2024-0100), include the recent SAF pilot launched on September 18, 2024, by the National Development and Reform Commission (NDRC) and the Civil Aviation Administration of China (CAAC). This initiative involves 12 flights by major airlines incorporating SAF.

Potential Long-term Impacts
In the near term, the policy will disrupt UCO exports, ensuring a larger supply remains within China. This shift could reduce fiscal pressure and spur domestic BBD growth, particularly enhancing SAF's competitiveness on the global stage. However, this could provoke the EU to reconsider its current exclusion of Chinese SAF from anti-dumping measures.

In the long term, the policy is expected to curb speculative trading practices involving palm oil imports repackaged as UCO. As a result, palm oil imports are projected to decline, revealing China's true UCO supply capacity. Some traders are already accelerating palm oil sales. Over time, waste collection operations may begin directly supplying feedstock to BBD and SAF plants, bypassing intermediary traders.

Please refer to the unofficial translation of the Announcement for further details.
关于调整出口退税政策的公告
http://szs.mof.gov.cn/zhengcefabu/202411/t20241115_3947628.htm

In Attachment 1, the List of Products for which Export Tax Rebates are Cancelled, HS Code 15180000 is listed. Chemically modified animal, vegetable or microbial oils and fats (including their fractions and inedible fats and oils or products prepared from mixtures of fats and oils of this Chapter, other than those of heading 1516)
Begin Unofficial Translation

Announcement on Adjustment of Export Tax Rebate Policy
Announcement No. 15 of 2024 of the Ministry of Finance and the State Administration of Taxation

The following announcement is hereby made on the adjustment of export tax rebate policy for aluminum and other products:
1. Cancel export tax rebate for aluminum, copper, and chemically modified animal, plant or microbial oils, fats and other products. See Attachment 1 for the specific product list.
2. Reduce the export tax rebate rate for some finished oils, photovoltaics, batteries, and some non-metallic mineral products from 13% to 9%. See Attachment 2 for the specific product list.
3. This announcement will take effect on December 1, 2024. The export tax rebate rate applicable to the products listed in this announcement is defined by the export date indicated on the export goods declaration form.

This announcement is hereby made.

Attachment 1 List of products for which export tax rebates are cancelled
Attachment 2 List of products for which export tax rebates are reduced
Ministry of Finance and the State Administration of Taxation
November 15, 2024
Attachments:

No Attachments.