



The effects on the UK biofuel industry of the EU proposals on Indirect Land Use Change (COM 2012) 595 final of 17 October 2012, and UK Biofuels Industry counter-proposals – February 2013

1. Summary

- 1.1. These proposals attempt to fulfil the mandate given to the European Commission in Article 19(6) of the Renewable Energy Directive (RED), and to respond to the many anti-biofuel lobbies which unjustifiably claim that all biofuel production is responsible for rising global food prices, land grab and decreasing biodiversity. Unfortunately, the proposals may end up achieving the reverse of the original objectives of the Commission's mandate. The effect of the proposals will be to:
 - Increase the use of fossil fuel and therefore increase GHG emissions
 - Undermine existing and future UK investments in sustainable biofuels by reducing the market size by 30-40%
 - Jeopardise current investment in the UK of over £1 billion
 - Put at risk up to 3,500 jobs
 - Stifle further investment in both first generation and advanced biofuels
 - Increase commodity market volatility as a response to lost agricultural production.
 - Remove the market stimulus to increase agricultural productivity, which enhances food security
 - Cut off a valuable source of food in the form of high protein, low carbon, animal feed
 - Ultimately lead to the reduction in both the RED and the Fuel Quality Directive (FQD) targets thereby fatally undermining the EU's overall renewable target and the drive to reducing GHG emissions across the energy sector.
- 1.2. We detail below the effects of the Commission's proposals on the UK biofuels industry (Section 2) and outline the changes the industry would like to see to the proposals (Section 3).
- 1.3. We welcome a continuing dialogue with all decision-makers in the UK and the EU as negotiations move forward so that a final decision can be taken as soon as possible that will allow a sustainable biofuels industry to flourish both in the UK and EU wide.

2. The effects of the proposals on the UK biofuels industry

- 2.1. A limit of 5% on crop-based biofuels that can be counted towards the RED 10% renewable transport target.
 - The imposition of a 5% cap is not an appropriate way to fulfil the mandate in Article 19(6) of the RED. Many crop-based biofuels are delivering significant GHG savings as well as a valuable food source in the form of high protein animal feed. This provides a stimulus to improved and sustainable agricultural productivity.

- The introduction of a 5% cap on selected crop-based biofuels is perverse. It will restrict biofuel production from those efficient and productive agricultural crops which also co-produce high protein animal feed, while encouraging biofuels production from other crops, such as SRC and miscanthus. These are grown on arable land and have similar biofuels yields, but do not co-produce animal feed.
- The effect of a 5% cap will be to:
 - Put at risk current UK investment in biofuels – c £1 billion and 3,500 jobs – since the market size would be reduced by 30-40% and industry business plans were drawn up on the basis of a stable market achieving a 10% renewable energy target in 2020.
 - Risk destroying the UK's nascent bioethanol industry which will be vulnerable to bioethanol imports as the 5% cap is taken up by crop-based biodiesel in diesel-intensive markets in the EU and the bioethanol industry in other member states will need to find alternative market outlets.
 - Remove the economic stimulus to greater agricultural productivity provided by the increased demand from the biofuels market. For example, UK oil seed rape yield has increased by 25% over the last 10 years. If this demand diminishes, crop-based production will fall as well, as farmers respond to market signals. There will be no automatic reversion to food/feed production. The notion that the land used for crop-based biofuels will be used instead to supply more wheat and maize globally is theoretical and ignores the working of real markets, and the support structure of the Common Agricultural Policy which effectively makes fallow more economic.
 - Remove from the market those crop-based biofuels that can deliver both high GHG savings and valuable high protein animal feed co-products, which can substitute for imported soy. The value of the rapemeal co-product from the UK oilseed crush is c. £60m annually, and that of the DDGS wheat bioethanol co-product is c. £130m.
 - Threaten the UK oilseed crushing industry and UK balance of payments. 40% of the oil produced by UK crushers goes for biodiesel production. This is worth £200m in export earnings.
 - Damage investor confidence still further and jeopardise the chance of the UK developing a sustainable biofuels industry to provide growth and jobs.

2.2. An aspiration that post-2020, biofuels produced from crops used for food and feed should not be subsidised.

- The wording in the Commission's Explanatory Memorandum is unclear. The UK first generation biofuels industry does not receive any direct subsidies.
- Conventional crop-based biofuels must continue to have a role beyond 2020 to encourage the development of advanced biofuels until these are available on a sufficient and commercial scale.
- What is required is a mandate and trajectory to 2020 and beyond to at least 2030, not subsidies.

2.3. Biofuels made from feedstocks specified in new Annex IX, Part A to count 4 times towards RED target.

- We welcome assistance for genuine advanced biofuels production and use, as advanced biofuels have the potential to create much needed economic growth through the bio-economy, reduce GHG emissions from transport and diversify energy supply.
- Creating investor confidence in the biofuels sector as a whole (both crop-based and advanced biofuels), through the setting of a trajectory of increasing mandated targets to at least 2030, is key to encouraging investment in advanced biofuels.

- The multiple-counting mechanism does potentially provide a premium for advanced biofuels, although the economic value of the premium is still uncertain for the purpose of making investment decisions. However, four times counting is illogical in terms of GHG savings making overall GHG reduction targets impossible to meet.
- The proposal to make such biofuels count four times rather than double will have limited additional impact if it is linked to the 5% cap on crop-based biofuels, as the overall effect of this proposal will be to reduce investor confidence in the entire biofuels sector.

2.4. The introduction of ILUC factors for reporting purposes only.

- The science of ILUC is still in its infancy and subject to uncertainty and therefore should not be the foundation of European legislation at this time.
- The models as they stand were not designed for the purposes of ILUC and contain both flaws and errors. For example, the IFPRI MIRAGE model has been widely criticised by scientists, is not peer-reviewed and cannot be considered a sound scientific basis. It does not account properly for the protein content of biofuels co-products and does not model palm oil as a perennial crop. Consequently the reporting factors in the proposals are inaccurate and misleading.
- Industry players have limited control over ILUC. Policy should also be directed at measures to mitigate ILUC risks – controls on deforestation, rules on appropriate land use, the production of co-products, as well as the range of carbon and sustainability measures that have yet to be fully applied in EU legislation.

2.5. Biofuels made from feedstocks specified in new Annex IX, Part B to count 2 times towards RED target.

- The UK biodiesel market was largely supplied by UCO and tallow derived biodiesel while a fuel duty rebate was in place. However, since this incentive was removed (April 2012) and despite double counting, sales of such biodiesel have fallen by c.90%.
- The DfT RTFO Unit have seen cases of suspected fraud in the supply of UCO so, while this is a valuable use of waste products, regulators must implement measures to ensure that there is no fraud.

3. What we propose

3.1. Biofuel feedstocks

The assertion that all crop-based biofuels inherently have greater carbon emissions than non-crop-based biofuels is not correct. The proposals should be amended as follows. Since all the elements within the proposals must be read together as a package, so these amendments should be read as a package:

- A separate target for advanced biofuels made from non-crop-based feedstocks as listed in the proposals at Annex IX, Part A, and using advanced technologies (see Appendix 1). Industry sources suggest that this could reach 2% by 2020.¹
- The balance of the renewable transport supplies to reach the 10% target specified in Article 3(4) of the RED should come from:
 - Those feedstocks listed in the proposals at Annex IX, Part B.
 - Electric vehicles as specified in Article 3(4)(c) of the RED.
 - Crop-based biofuels that meet the RED sustainability criteria.

¹ Budgetary implications will have to be evaluated, but would be expected to be negligible as monitoring a 2% advanced generation biofuels cap would be broadly equivalent to monitoring a 5% crop-based biofuels cap.

- As we propose that biofuels made from non-crop-based feedstocks as listed in Annex IX, Part A, and using advanced technologies, should have a separate target, these biofuels need not be multiple-counted towards the achievement of the target². (See Appendix 1)
- We agree that those biofuels made from non-crop-based feedstocks as listed in the proposed Annex IX Part B should be counted twice towards the achievement of the target. However, we urge EU national authorities to adopt a harmonised system to combat fraud across the EU. (See Appendix 1)
- In order to support investment, the proposal should include a commitment to a renewable transport target until at least 2030.

3.2. Indirect land use change

The EU biofuels debate has raised important issues about global land use and it is encouraging that the European Commission has begun to engage with these.

However, the science of indirect land use change is not yet mature enough to serve as a solid base for policy. This policy should not be developed further until greater maturity has been reached and the science is further refined/corrected and consensual. The Commission should engage directly with industry to ensure that future work is based on a practical and not simply a theoretical approach.

Appendix 1 – definition of “Advanced Biofuels”

In the context of the Commission’s proposals, the UK biofuels industry believes that support in the form of a separate target of 2% should be given to high technology advanced biofuels which are:

- Made from materials, as set out in the proposals at Annex IX, Part A
- **AND** use advanced processing and conversion technologies, such as gasification, pyrolysis, hydrotreatment or the use of enzymes to convert ligno-cellulosic and non-food cellulosic materials.

Advanced biofuels benefitting from this separate target should not qualify for four times “multiple counting” as proposed by the Commission. As the use of used cooking oil and animal fats does not require advanced processing technologies, biofuels made from these materials should not be counted within the 2% proposal.

However, where biofuels use feedstocks that are verified waste products, and are included in proposals at Annex IX, Part B, it is appropriate that they should continue to be given two times “multiple counting”.

As the use of used cooking oil and animal fats does not require advanced processing technologies, biofuels made from these materials should not be counted within the 2% proposal.

In this context, the importance of the verification of wastes and residues should be emphasised. The EU Waste Framework Directive a priori discourages the production of waste. However, multiple counting as proposed by the Commission positively incentivises the production of waste and fraud is therefore a constant danger. We urge EU and national authorities to adopt a harmonised system to combat fraud across the EU.

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² One member of the REA has been unable to agree these proposals as they believe there is a strong case for maintaining multiple-counting for biofuels made from the feedstocks listed in Annex IX, Part A and Part B.