



Impact of draft EU proposals on Indirect Land Use Change (ILUC) on the UK biofuels sector

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Conclusions and recommendations

These proposals are ill-conceived and self-defeating. They will damage current and future investment, jobs and growth potential in the UK. They will increase GHG emissions by leaving the use of fossil fuels as the only viable alternative for the liquid fuel market. They threaten to de-rail the UK's renewable energy target of 15% by 2020 and the achievement of the UK's carbon budgets under the Climate Change Act.

We urge the European Commission to withdraw these proposals before they are formally adopted on 17 October. At the very least the following changes should be made to the proposals:

- *The limit of 5% for crop-based biofuels and the removal of all support from 2020.* A limit of no less than 8% should be imposed and this should be phased in, in accordance with a timetable beyond 2020 which is agreed with all stakeholders and takes into account a realistic development path for non-land using biofuels and the introduction of electrification in the road transport sector based on the availability of renewable energy.
- *The proposed ILUC factors.* These should be based on agreed science, and not on estimates which do not fully include co-product benefits and use flawed data. Once proven, they should also be phased in, in accordance with realistic "grandfathering" provisions to preserve investor confidence.
- *The date of 1 July 2012 for the application of a 60% GHG saving threshold.* This date should be re-set to take into account currently committed investment.
- Quadruple counting will do nothing to support the development of the advanced biofuels generation. The proposals should consider introducing a target for advanced biofuels.

Introduction

The European Commission was charged under Article 19(6) of the Renewable Energy Directive (RED) and Article 7d (6) of the Fuel Quality Directive (FQD) to address the impact of Indirect Land Use Change (ILUC) on greenhouse gas (GHG) emissions from biofuels. In September 2012, a set of proposals was leaked and is now circulating widely throughout the EU. We understand that the Cabinets of the European Commissioners will consider the draft proposals on 11 October and the Commissioners themselves will take a final decision on 17 October.

If adopted and implemented, these leaked proposals would deal a devastating blow to the nascent UK biofuels industry which, despite achieving a 77% GHG saving against fossil fuels, is relatively small and highly exposed given its investment cycle. This would waste millions of pounds of current investment and do little to encourage further investment into advanced biofuels.

Consequences of the proposals

A summary of the leaked proposals is attached at Annex 1.. A brief indication of the implications is set out below:



1. 5% limit for crop-based biofuels and no further support beyond 2020

The proposed limit is not based on proven science on the GHG impact of crop-based biofuels but on an implicit assumption in the Explanatory Memorandum that all crop-based biofuels have high GHG emissions because of ILUC. With the current global concern about the low level of available food commodities, largely caused by extreme weather events (e.g. drought and floods), in turn consistent with climate change predictions, this is an attempt to insert a solution to a political campaign that wrongly claims that the removal of the EU biofuels mandate will wipe out global hunger. This is a highly complex area and the responsible biofuels industry has been unfairly vilified – for example the UN recently highlighted the wastage of 50% of the global food supply.

The science of ILUC is still in the early stages of development and it does not fully take into account the mitigating effects of the production of co-products with biofuels. These co-products are sources of high-protein animal feed which can replace imported soy products (themselves a source of high GHG emissions) and they are much valued by the UK livestock sector.

Investments in the UK of nearly £700 million have been made in good faith in the production of wheat and sugar beet-based bioethanol. Both achieve GHG savings significantly above the levels prescribed in the RED and provide valuable co-products. Constructing bioethanol plants is particularly capital-intensive and business plans have been drawn up on the basis of a stable market and the assurance in the RED that any ILUC proposal would include “the necessary safeguards to provide certainty for investment undertaken before that methodology is applied” (Article 19(6)). The leaked proposals have introduced uncertainty into the market and the “grandfathering” safeguards, which will not go beyond 2018, are wholly inadequate.

Future planned investment in crop-based bioethanol plant, which has been identified in the Government’s own Bioenergy Strategy (April, 2012) as low-risk, will be choked off, not only because of the 5% limit, but also because there will be no applicable policy after 2020.

The emergence of a new, sustainable biofuels industry, based on mandatory sustainability rules, has given UK farmers added incentive to improve productivity and agricultural practices to deliver higher GHG savings for all end uses – food, feed, and fuel. If the biofuels market is shut down these improvements will stall.

This has been most ably demonstrated by the increase in production of oilseed rape. Currently, 70% of oilseed rape produced in the UK is exported with the majority destined for biodiesel and rape meal production. Total land area cropped with oilseed rape has increased by 50% from 2001 to 2011 with an increase by 70% in production over the same period mirroring increased demand and investment in the crop. The current proposals would result in the collapse of the biodiesel market and the catastrophic breakup of an essential market for UK farmers having a twofold effect on the agricultural industry.

Firstly, by restricting the markets for vegetable oil, the policy will reduce the production of oilseed rape as demand will be drastically cut. In turn this will affect the economic sustainability of whole farm operations as there will be a significant reduction in area of this important rotational crop. This will have impacts on soil structure, pests and disease and also negatively impact biodiversity on farm. The RSPB has indicated that oilseed rape is an important species in modern arable rotations. As a crop with an accessible but protective canopy, it offers an important boost to biodiversity, providing an essential habitat for a wide variety of fauna, especially nesting birds and bees. At a time when CAP proposals are heavily focussed on increasing biodiversity and it is commonly acknowledged that we need to double food production by 2050, existing proposals by undermining important markets would see a return to an extensive approach with farmers concentrating on reducing costs and not on the necessary drive for sustainable intensification.

Secondly, European reliance on imported protein such as soya meal from the Americas and palm meal from South East Asia will increase. According to DGAgri, the EU currently has a 20 million tonne protein deficit. A



sustainable biofuels industry has played and should continue to play an important role in narrowing this deficit to the benefit of both livestock and arable producers. However, the decrease in ethanol and biodiesel production will quickly undo the progress that has been made. Livestock producers, already faced with rising feed prices, will lose a vital local protein source, forcing feed prices to escalate even further. This could have vast implications on the availability and price of meat within Europe. This appears to fly in the face of the motives behind the proposals and our moral obligation to increase food production and tackle the cyclical impacts of food price increases.

The food and fuel relationship is not a zero sum game. Increased investment in agriculture encouraged by the production of biofuels has led to increased productivity. Oilseed rape is a good example – new markets have led to investment in the crop as there is more demand and also more money in the supply chain.

2. The application of ILUC factors to food-based biofuels

According to the Commission's Explanatory Memorandum, ILUC factors are intended to limit the contribution of crop-based biofuels. However, this would already be achieved by the 5% limit for these biofuels and the withdrawal of support from 2020. The application of all these measures, including ILUC factors, is grossly disproportionate.

The proposals ignore the fact that ILUC will be caused by all agricultural activity. If the science is there to back it, logically ILUC factors should be applied to all non-food end uses. It is unclear why biofuels are being singled out, particularly when they have a valuable contribution to make to climate change mitigation.

Due to the continually changing science relating to ILUC, there is no agreed methodology or reliable database, so there is no consensus on how to measure ILUC impacts. The Commission's impact assessment and draft proposals rely entirely on a study by the International Food Policy Research Institute (IFPRI). This study has been widely criticised by scientists and environmental experts as it uses flawed data and ignores market realities. IFPRI makes no distinction between ILUC and direct land use change (DLUC) emissions, so its factors are actually generic LUC factors and consequently inflated, even though DLUC is already strictly regulated and forbidden under EU sustainability rules. Significant amongst the several data errors is the underestimation of oil and meal content of oilseeds. Correcting this alone would result in a 78% improvement to the IFPRI findings. The IFPRI study cannot be considered as a scientific basis for an objective impact assessment and for the establishment of a robust ILUC methodology.

It appears that these "factors" will apply to fuel suppliers under the FQD and to the Member States under the RED. Using the figures supplied to the RTFO Unit of the UK Department for Transport, and noting that the UK fuel pool is roughly 60% diesel and that biodiesel feedstocks (oils) have the highest ILUC factor, it is apparent that fuel suppliers will not be able to meet their FQD obligations after the grandfathering provisions expire on 1 January 2018. As the FQD has not yet been implemented in the UK, it is unreasonable to suppose that the fuel suppliers could reach their 6% GHG saving obligation in the remaining 5 years (2013-2018). The only alternative would be to reduce this Obligation, thereby leaving the transport sector even more dependent on high GHG emitting fossil fuels.

It is equally problematic to see how Member States, including the UK, could reach their 10% renewable transport target under the RED unless there is a massive further investment in advanced biofuels, or a concerted switch to bioethanol. This investment is very unlikely to be forthcoming given the potential investor damage these proposals will inflict. Again, the answer may be to reduce the target but this flies in the face of the intention of the RED and would make the achievement of the UK's 15% renewable energy target all but impossible without placing a huge strain on the power and heat sectors to achieve more.

3. Increase of minimum GHG saving threshold for new plant from 1 July 2012 to 60%

While the REA supports increasing thresholds for GHG saving, this action would be retrospective. For plants in the process of commissioning, this action would be very difficult to accommodate. If the UK then chooses to require the bioethanol supply chain to apply the ILUC factor as well, then s could become inoperable. This provision is completely unacceptable.

4. Biofuels made from non-land using feedstocks to count four times towards the achievement of the 10% RED renewable transport target

Crop-based biofuels are an essential start in developing the market for sustainable liquid alternatives to fossil fuels. Once that market is established, then investment in the more complex and costly biofuels made from non-land using biofuels will come on stream. It is commercially illogical to expect investors to embrace the more expensive, technologically complex biofuels, and for consumers to pay for these, before a functioning non-fossil fuel liquid fuel market is established.

While interest in developing “advanced” biofuels may continue, this will be more prevalent in markets where current conventional biofuels have not been limited and where support is much stronger than in the UK. If this proposal destroys confidence in UK biofuels investment, as it is likely to do, then the “four times” provision will be worthless. Where investment does take place, one quarter of sales will take place than would otherwise have been the case, as one litre of this biofuels will count as 4 litres.

By quadruple counting these “advanced” biofuels, the proposal will ensure that the actual volume of biofuels coming onto the market is reduced and that targets will be met with non-existent “virtual” biofuels. The shortfall in actual volumes will be made up by fossil fuels. In GHG saving terms, the proposals will therefore achieve little.

ANNEX 1

The leaked proposals

The draft as it stands proposes:

- To limit crop-based biofuels to no more than half the 10% target for renewable transport set out in the RED.
- To remove all support for crop-based biofuels post-2020.
- To apply estimated carbon intensity figures ILUC “factors” to oil, starch and sugar-based biofuels, derived from theoretical land use modelling. The proposed factors (in gCO₂e/MJ) would be:
 - o Oils (including oilseed rape) - 55
 - o Starches (including wheat and maize) -12
 - o Sugars (including sugar beet and sugar cane) - 13
- To increase the minimum greenhouse gas (GHG) saving threshold for biofuels produced in plant that came into production after 1 July 2012 from 35% to 60%.
- To allow biofuels made from non-land using feedstocks to count four times towards the achievement of the 10% target. This broadly covers biofuels made from municipal solid waste, algae and residues. Other waste, such as used cooking oil, will continue to count twice.