

1. Transparency

4. Sound science

# Bio-fuels

2. Inclusiveness

3. Proportionality



# Four Steps to Rationality

## For sustainable bio-fuels

**E**uropean Union (EU) efforts to develop a bio-fuels sustainability scheme have lost their moorings. At the time of writing, negotiations are bogged down by deep divisions and a general sense of confusion.

The politicisation of the debate has also heightened the risk of political opportunism and non-transparent bargaining to the detriment of developing sound policy on the basis of scientific fact and thorough analysis.

That said, the political deadlock over sustainability criteria for bio-fuels has opened a new window of opportunity to take a step back and return to the principles of transparency, inclusiveness, proportionality and sound science.

The current surge in agricultural commodity and food prices has added more controversy to the discussions in Europe on bio-fuels. In the recent media frenzy, a number of NGOs and policy makers have accused bio-fuels of "starving the poor".

More recently, international organisations such as the IMF, FAO, World Bank and World Food Programme have called on the EU to drop its plans to promote the use of bio-fuels, blaming these directly for current food price inflation and shortages.

Agriculture Commissioner Mariann Fischer Boel has repeatedly rejected such allegations, saying earlier this year that "those who see bio-fuels as the driving force behind recent food price increases have overlooked not just one elephant standing right in front of them, but two". The commissioner cited such factors as rising food demand and dietary shifts in emerging economies like China and India, as well as poor crop harvests due to bad weather conditions. Speculative trading of food commodities has also exacerbated the price trend.



The EU is also under pressure to stick to its ambitious environmental policy objectives and demonstrate that it can deliver in the fight against global warming. Its climate change package, presented in January, foresees substantial CO<sub>2</sub> cuts through a number of measures, including a binding 10% target for bio-fuels in transport by 2020. Moreover, faced with escalating fuel prices, Europe is seeking new alternative energy sources that could help reduce its dependency on crude oil.

Some lawmakers have also argued that political commitment to promoting bio-fuels will provide the stimulus and legal certainty needed to help a proper market develop. They say that only clear political signals will encourage the bio-fuels industry to make the necessary research and development investments to move from first to second generation bio-fuels in the longer term.

As long as effective sustainability criteria can ensure that bio-fuels are produced in an environmentally friendly way and do in fact deliver substantial greenhouse gas (GHG) savings, proponents argue that the EU's ambitious 10% bio-fuels target should remain in place.

### Political deadlock

The politicisation of the debate has made finding consensus more difficult. In addition, the almost weekly release of new – and often contradictory – studies on the effects of bio-fuels has added to the uncertainty.

A special *ad hoc* working group, composed of EU member-state representatives, was set up at the end of February to elaborate clear sustainability criteria for bio-fuels. However, a compromise has so far proved elusive. Member-states are particularly at odds over the minimum GHG emission reduction target, the binding

nature of environmental and social requirements, and even the overall 10% bio-fuel target itself.

EU countries are also far from agreeing on a calculation method for the carbon balance of bio-fuels, including questions such as whether CO<sub>2</sub> released during feedstock cultivation or land-use changes should be counted in the life cycle calculations.



The split largely reflects a rift between producing and importing countries. Bio-fuel producers are largely seeking to protect their national farmers by pushing for lower GHG reduction targets of around 35%, as well as strict imposition of compulsory





environmental

and social criteria to fend off

competition from third countries. This is challenged by free-traders and those who argue that if substantial CO<sub>2</sub> reductions are to be achieved, GHG reduction targets need to be set at an ambitious level of at least 50%.

This stalemate has delayed a key part of the European Parliament's parallel legislative work on bio-fuels, which is set to include the same set of sustainability criteria. Moreover, Members of the European Parliament (MEPs) are divided along the same lines as the EU countries they hail from. While some support the 10% target, the two MEPs charged with drafting key forthcoming legislative reports – Claude Turmes and Anders Wijkman – have called for the target to be reduced to 8% to make it more “feasible”. And they demand high sustainability standards.

Once member-states agree on sustainability criteria, they will have to enter into negotiations with the European Parliament to find a joint position that will enable the adoption of the bio-fuel legislation. All eyes will be on policy makers in September when an agreement on bio-fuels sustainability criteria is due to be struck.

### **Principles for progress**

As it moves to assess different types of bio-fuel according to their GHG savings potential and sustainability record, the EU is entering new policy territory. Indeed, there is still no

consensus within the international scientific community on the best method of calculation GHG savings.

The EU's ambition to design the world's first comprehensive set of laws on sustainable production and use of bio-fuels should help accelerate this compromise-finding process, forcing stakeholders and independent scientists to exchange data, opinions and ideas.

At the same time there is a danger that politicians may jump ahead of the science, the data and the facts. If the EU wants to set a successful international precedent in the area of bio-fuel legislation, it needs to get the foundation right. Otherwise it risks its policies and standards being discredited. Indeed, bad policies risk translating into bad outcomes for the environment.

The Malaysian palm oil industry is contributing to the policy debate with insights into production methods and sustainability practices. These have been received with interest by policy makers in the European Commission (EC) and national governments, as well as MEPs. Building on this, MPOC will also host a workshop in November organised by the Joint Research Council, the EC's independent research arm providing input to EU policy making.

If the EU's bio-fuel policy is to be a success, decision makers must adhere to four principles.

## 1. Transparency

GHG savings requirements and sustainability criteria for bio-fuels will only be robust if they are the result of a transparent decision-making process. In the context of growing concerns over climate change and rising food and energy prices, the European policy debate is becoming increasingly prone to distorted and confusing rhetoric.

While the political deadlock may cause delays to the legislative timeline, it may also enable a return to a more transparent and thorough decision-making process. A quick political fix resulting from closed-door meetings would have been unlikely to deliver the right outcomes.

## 2. Inclusiveness

For the GHG and sustainability criteria to work, they also need to be seen as legitimate by third-country governments and industries. The EU cannot meet its climate change goals alone and, on a practical note, the criteria need to be workable in bio-fuel producing countries.

For these reasons, the Malaysian government and palm oil industry – alongside counterparts from other leading third countries – have made a point of being closely involved in EU discussions. They remain keen to engage with EU decision makers and other stakeholders at all levels to exchange information and find common solutions.



## 3. Proportionality

A European sustainability scheme should also avoid competing with or, worse, contradicting existing initiatives. Instead of trying to reinvent the wheel, the EU should build on successful sustainability and certification schemes that are already in place. This would also ensure that its demands are in line with the needs of those who implement such schemes on the ground.

**RSPO**

Roundtable on Sustainable Palm Oil

The Malaysian palm oil industry has a long history of ensuring sustainable production and therefore strongly supports the EU's move to promote stringent sustainability standards. Producers began adhering to sustainable agricultural practices for cultivation and processing of palm oil used in foodstuffs and oleochemicals decades before bio-fuels became a buzzword.

Demand for sustainable palm oil has been a priority for years, leading *inter alia* to the creation of the Roundtable on



Sustainable Palm Oil. Last November, it rolled out its certification scheme for sustainable palm oil. The first ships delivering palm oil compliant with the new certification scheme are now leaving Malaysian ports.

Malaysian palm oil has to respect the highest sustainability standards, whether it is used for food, cosmetics or bio-fuels. High standards are in the interest of Malaysia's people, the environment and the industry's bottom line.

#### 4. Sound science

Sustainability criteria have to be based on sound science. In particular when it comes to calculating GHG savings from bio-fuels, policy makers need to ensure that the scientific basis is reliable. In many ways, the scientific community is a step behind the policy makers in this area. This is understandable given the novelty of the issue. From a policy perspective this means that any new laws will have to leave sufficient room for adjusting the underlying scientific calculations as scientific knowledge expands and generally agreed methodologies emerge.

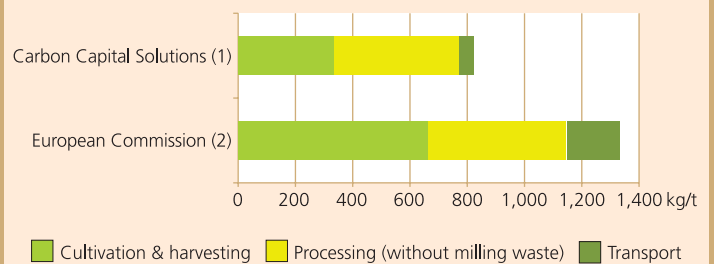
Palm oil is a good example. In its initial assessment, the EC attributes to palm oil a 'typical' GHG savings value of 32%. However, the methodology fails to take into account that the cultivation of palm oil requires less fertilisation and lower levels of carbon-intensive nitrate fertilisers compared to rapeseed or sunflower. Similarly, according to the EC's current set of calculations, transport of palm-based bio-fuels emits five times more GHG gases than the transport of other bio-fuels. This claim is not substantiated with data or a reliable methodology.

A study commissioned by MPOC and carried out by Carbon Capital Solutions comes to very different conclusions about the GHG savings potential of palm oil. The study reveals that the EC's calculations understate the GHG savings potential of palm oil by about 20%. This is just one example of issues that need to be addressed to ensure sound policy and fair competition.

Climate change is a global challenge that requires global answers. Finding the right policy framework for the production and use of bio-fuels is one piece of the puzzle. The EU's leadership in this area is a welcome step but it requires cooperation and coordination between industry groups, NGOs, scientists and governments around the world.

MPOC

**Different results - Calculating CO<sub>2</sub> emissions for palm oil-based bio-fuel**



(1) J.M. van Zutphen, R.A. Wijbrans (2008), "The CO<sub>2</sub> and Energy Balance of Bio-diesel Derived from Vegetable Oils, CarbonCapital Solutions

(2) European Commission (2008), Commission Staff Working document, "Annex to the Impact Assessment" [http://ec.europa.eu/energy/dimate\\_actions/doc/2008\\_res\\_ia\\_annex\\_en.pdf](http://ec.europa.eu/energy/dimate_actions/doc/2008_res_ia_annex_en.pdf)