

PALM OIL IN EUROPE – A REGULATORY OVERVIEW FOCUSED ON BIOFUELS

SPENCER SWARTZ

Vice President, Energy & Government Relations, Brussels

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KEY EUROPEAN BIOFUEL BACKGROUND

- > **EU Biofuel Market:** about \$22 billion/year industry; roughly 20% Ethanol and 80% Biodiesel (BD, about 70% rapeseed, 19% palm oil).
- > **European vehicle fleet:** about 65% diesel and rising (thus, biodiesel-favored market)
- > **2009 EU Renewable Energy Directive (RED)** creates European market for biofuels + world's toughest sustainable criteria.
- > **Key RED provision:** 10% of transport fuel in Europe by 2020 should come from renewables; first-generation (1G) biofuels widely expected to fulfill requirement.
- > **Fuel Quality Directive**, amended in 2009, requires 6% reduction in GHG emissions in transport by 2020 vs 2010 among oil suppliers/blenders.
- > **NGO Pressure**, play dominant role in influencing EU and EU Member States on environmental/energy issues, particularly biofuels and palm oil.

THE U-TURN ON BIOFUELS – AND AGAINST PALM OIL/VEG OILS



THE U-TURN/MOVING OF THE GOALPOST ON BIOFUELS IN EUROPE

- > **European Commission (Sept-Oct):** Draft proposal on Indirect Land Use Change and Biofuels (cap food-based biofuels at 5% in transport fuel, eg). Highly negative implications for use of palm oil and other vegetable oils.
- > **French Government (Sept):** Proposal that use of food-based biofuels to be capped at 7% in transport by 2020.
- > **OECD (Sept):** Urges end to European and US biofuel mandates to lower perceived pressure on food prices.
- > **UN FAO (Aug):** Urges “rethink” on biofuels policy in Europe/US.

EUROPEAN COMMISSION ILUC PROPOSAL IN MORE DETAIL

- 1) Cap market share of 1st generation biofuels (1G) at 5% of transport fuel in Europe; **1G accounted for 4.5% of European transport fuel in 2011) *EU has 10% renewable fuel transport target; other 5% of target to come from cellulosic/non-food sources.*
- 2) Impose ILUC “factors” (apply “indirect” GHG emissions) to biofuels; vegetable oil feedstocks hit hardest; apply to EU Fuel Quality Directive. Ethanol favored over Biodiesel.
- 3) 1G biofuel investments would lose public subsidies after 2020.
- 4) Biofuels from waste/residue to be promoted and their GHG savings will be quadruple-counted to meet RED requirements. Unknown: how are PFAD and stearin classified? Still no EU list of Waste/Residues.

EUROPEAN COMMISSION ILUC PROPOSAL IN MORE DETAIL

PROPOSED ILUC “FACTORS” TO APPLY TO FQD

CROP GROUP

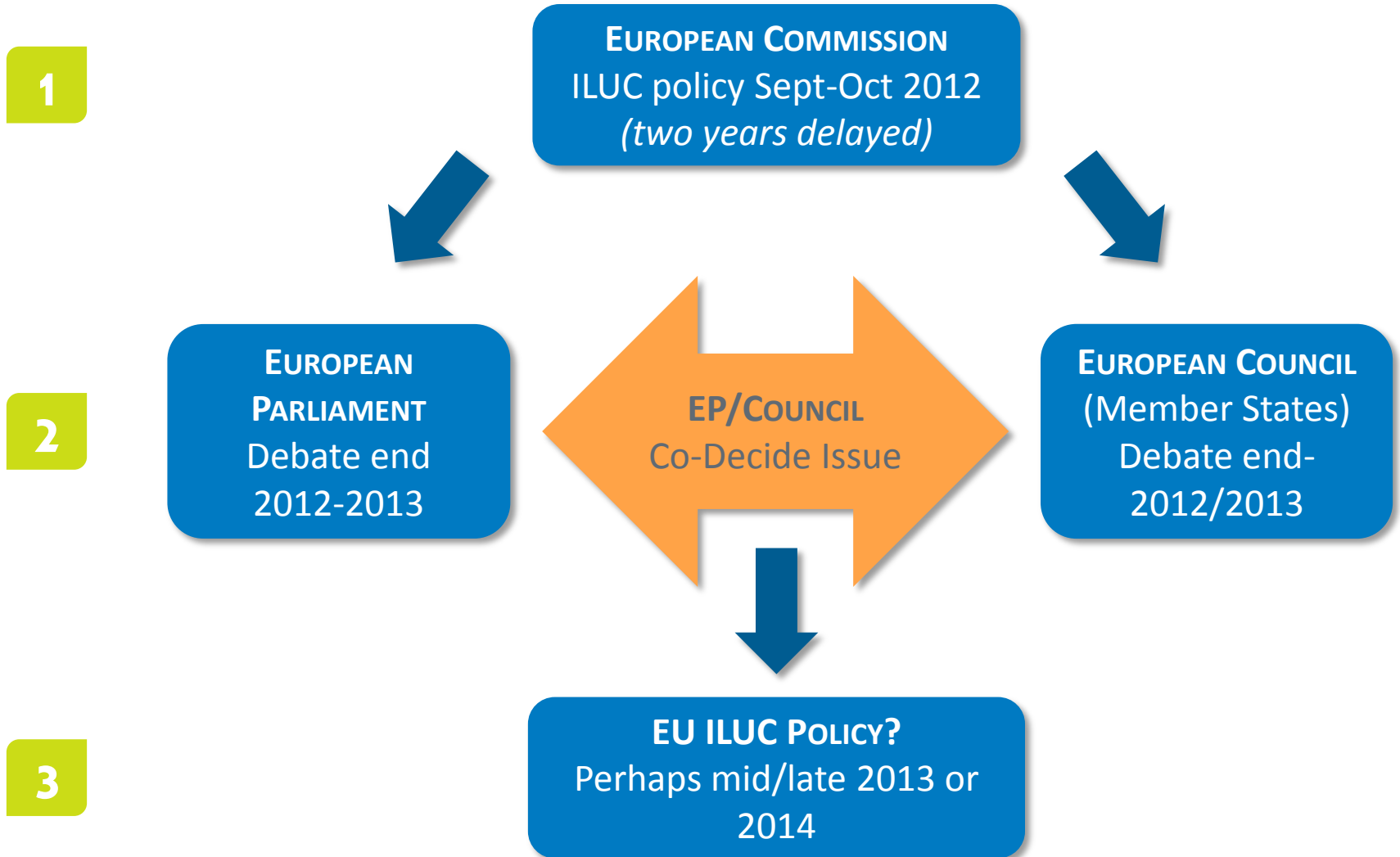
- > Vegetable Oil Crops (palm oil, soya, rapeseed)
(BIODIESEL)
- > Sugars (sugar beet, eg)
(ETHANOL)
- > Cereals/other starch rich crops (corn, eg)
(ETHANOL)

ILUC (“INDIRECT”) EMISSIONS

- > 55 gCO₂/MJ FQD compliance impossible
 - > 13 gCO₂/MJ
 - > 12 gCO₂/MJ
- } FQD compliance still doable

*ILUC factors would apply legally 2018-2020,
but market reaction likely much sooner.*

EU POLICY PROCESS ON ILUC



WIDER IMPLICATIONS OF EC ILUC POLICY IN OTHER EU POLICY AREAS?

- > **Product Labeling:** EU Food Information for Consumers Regulation. All vegetable oils need to be listed on food labels by 2014. Will Member States follow letter and spirit of directive? Require quantity of palm oil used?
- > **Various French retailers**, under NGO pressure, labeling “palm oil free” on various household goods. French government could try to make this market development a legal requirement in France to cater to left-wing of party.
- > **Germany:** Federal Elections Sept 2013. Anti-palm oil Social Democrats could regain power. Social Democrats tried but failed to promote palm oil declaration in food/cosmetics in 2010. A new effort at declaration if SD elected?

SUMMARY

- > Palm oil/veg oils are fighting for survival in EU biofuel market. Anti-palm oil is easy politics in Europe; few friends in European policy circles.
- > Negative implications could spread: left-wing governments, as in France, could demand new palm oil requirements in other sectors.
- > European Commission ILUC proposal: end of the beginning; mid-2013 likely earliest before European Parliament and European Council (where member states are represented) make decisions.
- > For 2013, industry needs to find narrative to tell how palm oil sustainability processes have improved/are improving, particularly in Malaysia (methane capture and increased land use controls, as two examples). Combat food vs fuel argument.
- > Sustained engagement on many levels imperative: EU institutions, key Member State actors, and certain NGOs.

Thank you for your attention.

spencer.swartz@fleishmaneuropa.com