

Bio-fuels Backlash in EU

Food and sustainability issues are gaining ground

EU bio-fuels policy is at a crossroads. In the past 12 months, bio-fuels have gone from being seen as an all-encompassing panacea for the world's ills to a knee-jerk reaction in favour of strong domestic lobbies.

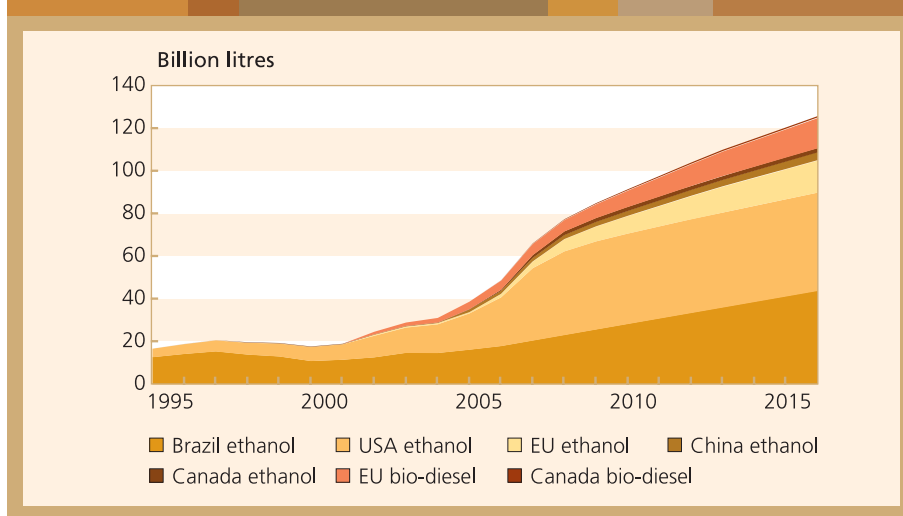
In January 2007, EU heads of state and government had backed a drive to increase the volume of bio-fuels used in the transport fuel mix to an ambitious 10% by 2020. But the tide has turned, driven by concern over the impact of bio-fuel production on the environment and food prices.

As a result, the timetable for agreeing the crucial sustainability criteria for bio-fuels has been dramatically accelerated, with a decision now expected by June.

Anti-bio-fuels campaigners have focused their fire on food security, negative greenhouse gas (GHG) impact and biodiversity loss. Many scientists have waded in alongside NGOs, providing ammunition and cover for politicians with cold feet to oppose the targets they had enthusiastically endorsed and demand a rethink of the whole approach.

The need to ensure sustainable production of bio-fuels has risen up the agenda to become a political issue. Initially limited to a January 2008 European Commission proposal on the 10% target, bio-fuels sustainability is now being debated more broadly at EU level. There is pressure for key criteria to be made more stringent, with the European Parliament calling for minimum GHG savings to be set at 50%.

Figure 1: Bio-fuel Production in Selected Countries - Projections to 2015



Source: OECD-FAO Agricultural Outlook 2007-2016

In this fast moving context, the key political drivers are now not only the European Parliament, a barometer of civil society's concerns, but also the very EU member-states that only recently saw bio-fuels as a cure-all.

Throw into the mix the protectionist domestic farm lobby and the vested interests of other affected industries, all weighing in on the politicians, and the outcome for the EU bio-fuels policy has never looked less certain.

Legislative landscape

National governments – primarily in the UK, the Netherlands and Germany – have led efforts in Europe to define sustainability standards for bio-fuels. They have developed domestic proposals for certification schemes designed to ensure that bio-fuel production that causes deforestation, biodiversity loss, increased GHG emissions or harm to local populations is excluded from bio-fuels targets and does not benefit from support schemes such as subsidies or tax incentives.

EU politicians in Brussels now have the task of designing an overall bio-fuels policy which will also include sustainability criteria. Ideas from member-states will feed into the new legislation, but the European Commission (EC) and Members of European Parliament (MEPs) also have their own ideas and will play a crucial role in shaping it.

At the centre of the debate are two key pieces of legislation (Box 1) that are currently being hammered out and, once adopted, will determine Europe's approach to bio-fuels. These are the Renewable Energies Directive (RED) and the Fuel Quality Directive (FQD).

In February 2008, EU member-states made a political decision to back the European Parliament's introduction of sustainability criteria into the FQD, a move that pleased opponents of the binding 10% volume target approach set out in the RED. The member-states agreed to set up a dedicated working group to thrash out core sustainability principles that could then guide both pieces of legislation.

Box 1: EU Laws in the Making

RED

It proposes a binding 10% volume target for bio-fuels which, if approved, would have to be implemented by 2020. The draft, published in January this year, also lays out environmental sustainability criteria with which both imported and domestically produced bio-fuel feedstock would have to comply in order to count towards the target and be eligible for government subsidies. These include a threshold of 35% GHG savings.

The RED was prepared by the EC's transport and energy department, which stood firm in the face of mounting opposition to an approach seen as making volume targets the end rather than the means. In order to become law, the proposal needs the green light of the member-states – known as the Council – and the European Parliament. In a climate of heightened scepticism over the advantages of bio-fuels, it is looking increasingly unlikely that the 10% target will survive.

FQD

This has had a head start. Prepared by the EC's environment department, it was designed to improve the quality of fuel in the EU for environmental and public health reasons. It included a requirement on fuel suppliers to cut lifecycle GHG emissions from road transport fuels by 10% from 2010 onwards at a rate of 1% per year; and proposed raising the volume of bio-fuels that can be used in road fuel in order to help achieve this. The FQD was already undergoing its first reading in the European Parliament in early 2007 when the issue of bio-fuels sustainability shot to the top of the political agenda, prompting MEPs to insert a set of sustainability criteria into the draft, where there had originally been none. This draft Directive also needs the approval of the Parliament and the Council in order to become law.

While this promises to lead to a more unified EU bio-fuels policy, it is likely to delay the adoption of the FQD to mid-2008. It also seems set to meet with resistance from the EC, which would prefer to see the criteria developed fully in the RED and merely referred to in the FQD.

Part of the EC's concern is surely that a FQD amended to include sustainability criteria would achieve one of the key objectives of the RED – lifecycle GHG savings from bio-fuels – making it easier to justify the removal of the increasingly unpopular 10% target. The working group is expected to make recommendations on the substance and scope of the criteria by the end of March, paving the way for adoption of the Directive by June (Box 2).

Serious bargaining ahead

The EC stands by its proposed 10% bio-fuels target. In a speech to the European Business Summit on the EU's energy security policy on Feb 21, Energy Commissioner Andris Piebalgs reiterated that the EU needs sustainable bio-fuels to reduce its reliance on – mainly imported – oil.

However, the bio-fuels dossier increasingly appears to be viewed as a poisoned chalice, compromised on all the key advantages that it was supposed to confer. Its few champions risk being seen as captive to favoured audiences (especially farmers, and to a lesser degree the European industry).

Piebalg's bio-fuels proposal, heralded as a groundbreaking leap forward in the EU's efforts to tackle climate

Box 2: EU Legislative Procedure

Both the RED and the FQD must be adopted by the European Parliament and the Council (made up of EU member-states) before they can enter into force and be transposed into EU countries' national law. There is no set time limit for this process, known in EU jargon as 'co-decision', but the EU is aiming to secure adoption of the FQD by June 2008 and of the RED in the first half of 2009.

The decision by the Council to outline sustainability criteria for bio-fuels for both directives by April 2008 means that the timeframe for this aspect of the RED is much shorter than planned. The window of influence for all interested parties has therefore shrunk considerably.

The Parliament has now begun work on the draft RED, discussing and preparing amendments to the EC's renewable energy proposals. These will then be voted on by MEPs on the Industry, Research and Energy Committee, which has been given responsibility for leading on the dossier; and subsequently by the full European Parliament.

Once the Parliament has adopted its report, it will be the Council's turn to work on the proposal. Member-states will try to negotiate a common line, and can either adopt the text with the Parliament's amendments, in which case it becomes law, or they can make further amendments, leading to a 'second reading'.

However, in practice, negotiations take place between all parties in parallel, meaning that for both the RED and the FQD, MEPs and member-states are working closely together with input from the Commission to try and secure final adoptions as fast as possible. In the case of the FQD, for which the EC's draft text was published in January 2007, the Parliament has even chosen to postpone its full plenary vote until agreement has been reached with the Council on the thorny issue of how to define sustainability criteria for bio-fuels.

change when it was floated in early 2007, now risks being derailed by MEPs and member-states wary of scoring a huge own goal in the sustainability stakes.

Like EU governments, MEPs last year gave the green light to plans to set a binding 10% bio-fuels target, as long as the new legislation also included sustainability criteria. However, the barrage of negative reports on the potential and sustainability of bio-fuels has since hit hard.

It is a more sceptical group of MEPs that must now amend and eventually give the green light to the two key legislative proposals. Key MEPs take a harder line than the EC, opposing the 10% target and advocating more stringent sustainability criteria. Acting as a weather vane for public opinion, they will continue to reflect civil society's concerns.

And while most recognise that there are good and bad bio-fuels, it will be up to the industry to make its case to an institution which can afford to set the bar high since it will not have to implement the new rules. The Parliament will be a major battleground for bio-fuels this year.

The backlash is keenly felt by some member-state governments. The stage is set for some serious bargaining between producing and non-producing countries, with national governments under scrutiny from often hostile media and NGOs and increasingly sceptical public opinion.



In February the UK, which had taken pride in being at the forefront of developing sustainability criteria, announced a review of the economic and environmental impact of bio-fuels. Its support for the EU-level 10% target hangs in the balance.

Meanwhile, some countries will be keen to protect domestic bio-fuel feedstock producers through binding targets set at a level they can supply – and this could mean pushing for lower targets coupled with sustainability criteria that *de facto* keep out imports from tropical countries.

Criteria here to stay

The anti-bio-fuels campaign has thoroughly undermined enthusiasm in all the European institutions. While political realities and the sunk costs and investments made so far by the industry mean that bio-fuels will not be cast aside, the onus is now on the European

Parliament and member-states to decide how the EU will encourage them and reward their use.

It will no longer be taken for granted that a move towards bio-fuels is a positive one. And increasing the volume of bio-fuels used in the EU, as proposed by the RED, is no longer likely to be seen as a policy goal in itself.

Instead, the FQD's treatment of bio-fuels as a carefully-monitored means to an end is gathering support, particularly among some of the more liberal-minded member-states that demand free trade and transparent and credible sustainability standards which will apply as much to domestic feedstock production as to imports.

Regardless of which approach wins out, sustainability criteria are here to stay. For many, the standards for GHG savings and protection of biodiversity set out in the EC's

recent RED proposal are not tough enough. For example, in its amendments to the FQD, the European Parliament raised the bar by proposing 50% GHG reductions for bio-fuels (as opposed to 35%).

And one key issue that the new Council working group will have to resolve is whether to back the Parliament's proposal to include social sustainability criteria in the FQD, something which the EC chose to sidestep in the RED and which has the potential to cause the EU a serious headache further down the line in terms of its WTO commitments.

All of this means that intense negotiations will take place in the coming weeks within and between the Parliament and Council as they seek a solution that balances sustainability concerns with the EU's climate change, energy security, agricultural and trade policy goals.