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**Biofuels: more valuable as fuel than as a scapegoat**

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Policy dialogue on biofuels organised by EPC (European Policy Centre)

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[Ladies and gentlemen],

First of all, let me thank the European Policy Centre for inviting me to speak at this morning's event.

Right now, a storm is blowing.

Of course, Europe has seen many storms over the last year or two – whether because of climate change or more familiar factors.

But over this period, I have seen no storm as ferocious as the recent media storm about biofuels.

Food prices are suddenly rising. In fact cereal prices have halved in real terms since 1975, but right now they are climbing, and people are worried. They are looking for explanations. They are right to do so.

But unfortunately, a search for explanations can quickly become a hunt for a scapegoat.

Biofuels seem to have become that scapegoat. The storm of media comment about them has become louder and louder, to the point where it's now difficult to hear real debate above the shriek of the wind.

But we must all make ourselves heard in the wind, otherwise good policy-making will be the victim. So I'm very grateful for this chance to address you today.

I will come back to the issue of food prices in a few minutes. But first, I want to take a broader perspective on the European Union's developing biofuels policy.

Let's be clear that this policy is not an "agricultural policy". It didn't grow in a cupboard in my office and then jump out, fully formed, into the light of day.

It was put together in response to requests from a wide range of groups. European heads of state and government asked the Commission for proposals and explicitly mentioned a biofuels usage target of 10 per cent in transport. In response, the whole Commission drafted proposals and adopted them.

So when I speak about biofuels, I do so on behalf of the Commission College, explaining Commission policy.

Let's also be clear that biofuels form part of a much wider policy on energy and climate change.

Renewable energy does not boil down to biofuels. There is so much that we can do in terms of generating electricity, heating and cooling from various sources, including a wide range of biomass. Biofuels are just one piece of the jigsaw.

Nevertheless, they are an important piece. They are a necessary piece.

The first reason for their importance is environmental.

Our transport sector is a heavy polluter. It's responsible for more than 20 per cent of greenhouse gas emissions that contribute to climate change in the European Union. And emissions are climbing faster in this sector than in any other.

Using more biofuels can help bring this destructive growth under control – in combination with policies on car emissions and transport logistics. This is very important as well.

The second reason – one which is discussed less often – relates to fuel security.

A transport sector that depends on imported oil for 98 per cent of its fuel needs is a vulnerable transport sector. 80 per cent of our imported oil comes from five countries: Russia, Saudi Arabia, Libya, Iran and Norway. For political and economic reasons, this is not a comfortable position to be in.

We need to diversify our sources of fuel. And this makes all the more sense when oil prices as high as \$ 120 a barrel are stirring up inflation.

So, for these reasons, biofuels can be extremely useful to us. But to get the best out of them, European Union Member States need to move together.

Only if we move together – with clear objectives - can we get industry to adapt to a world with biofuels, give confidence to investors, build a well-functioning internal market, bring down production costs and make second-generation fuels economically viable.

This is why we have agreed on a binding target: that by 2020, every European Union Member State must draw 10 per cent of its transport fuel supply from biofuels.

With this target, we can already start getting benefits from the better first-generation biofuels. And we can use them as a bridge to take us to the next generation.

I underline the importance of that bridge. A stable market can cut down the considerable risks faced by potential investors in second-generation fuels. Also, production facilities for some advanced fuels could be built as extensions to first-generation plants.

This is a bridge that we can cross; without it, I fear that the leap to the second generation may be so far that we can't make it.

So without a binding target, it's very likely that:

- the internal market would be fragmented;
- the more advanced products would never take off;
- greenhouse gas emissions from transport would continue to climb, imposing heavier emission reductions on other sectors, so we would be able to meet our overall reduction target of 20 per cent by 2020; and
- our fuel supply would remain vulnerable.

Of course, some have challenged the environmental value of first-generation fuels.

It's because of anxieties like these that the Commission has proposed a safeguard: a given biofuel would count towards a Member State's target only if it made a greenhouse gas saving of at least 35 per cent compared to fossil fuels.

This would apply both to domestic production and to imports, and we are open to the idea of raising that threshold from 2015.

In fact, many first-generation fuels score well above 35 per cent. The typical greenhouse gas saving for biodiesel made from European-grown rapeseed is 44 per cent. Some typical European Union first-generation fuels with very efficient conversion processes make savings closer to 60 per cent, while sugarcane-based biofuel could easily reach 74 per cent.

It's important to understand how our greenhouse gas calculations take land conversion into account.

They don't try to factor in greenhouse gas emissions supposedly caused by indirect land conversion. This is because there are no reliable studies to show that biofuel production causes indirect conversion.

On the other hand, our calculations do factor in direct land conversion. We take this issue very seriously.

I will turn in a moment to the question of whether biofuel production needs to cause land conversion.

But in any case, the Commission has proposed environmental safeguards.

No biofuel would count towards a Member State's usage target without meeting strict sustainability criteria. For example, this would exclude biofuels made from feedstock coming from:

- land with a high biodiversity value; and
- land with high carbon stocks.

In negotiations between the European Union institutions, we are looking at ways of adding to these requirements.

Of course, a key challenge is to ensure that imports actually meet our criteria in practice. We are working on various approaches to doing this in line with our international obligations. One thing I would say is that our trade partners have a clear interest in agreeing a suitable way forwards with us: for them, it will make the difference between doing business with the European Union, and not doing business!

Also, the Council has said clearly that agreeing a binding target for biofuel usage is dependent on agreeing sufficient guarantees for sustainability.

Furthermore, we should not exaggerate the land required to produce biofuels.

The Commission's simulation suggests that in 2020, 80 per cent of our biofuel usage target could be met by domestically produced raw material grown on about 15 per cent of European Union arable land.

(This is based on the assumption that trade policies remain unchanged. Of course, we are actually aiming for success in the Doha Round! I will outline other key assumptions in our calculation a little later.)

But bear in mind that, in our analysis, the "real" land use figure would in a sense be lower than 15 per cent. This is because of the by-products obtained from biofuel production.

If we produce a tonne of rapeseed to make biodiesel, about 42 per cent of the rapeseed is processed into oil and about 58 per cent into meal, which is sold to the animal feed sector. Clearly, the hectares in question are not "only" producing biofuel.

I should add that the European farm sector desperately needs feed at reasonable prices – ask any pig farmer!

Now let me turn to the heart of the media storm which I mentioned at the start of my remarks – the fear that biofuel production will push food prices higher and higher, and empty every food bowl in the developing world.

Of course, a sudden rise in prices has recently caused problems in the urban areas of developing countries. The European Union must react with aid as quickly as possible. However, long-term price rises are not an entirely bad thing. They could be good news for the 70 to 80 per cent of the world's poorest who live in rural areas and depend on farming for their livelihood. Here, we can do much better with our development aid. We should help developing countries to improve their agricultural knowledge and to look at new types of agricultural products.

In any case, those who see biofuels as the driving force behind recent food price increases have overlooked not just one elephant standing right in front of them, but two.

The first elephant is the huge increase in demand from emerging countries like China and India. These countries are eating more meat. It takes about 4 kg of cereals to produce 1 kg of pork, and about 2 kg of cereals to make 1 kg of poultry meat. So a dietary shift towards meat in countries with populations of over 1 billion people each has an enormous impact on commodity markets.

The second elephant is the weather, and its effect on production. In 2006, bad weather hit cereal production in the US, the European Union, Canada, Russia, Ukraine and Australia! In 2007, the same thing happened again, except in the US. This is not a recipe for low prices.

Alongside these two elephants are other influences. One of these is speculation. This is hard to quantify, but let me give you a couple of illustrations.

In 1998, investments in commodity indexes totalled \$10 billion. In 2007, the total was \$142 billion.

And in February this year, 140 commodity-based financial products were launched. This was the highest number ever, and double the number issued each month in 2006 and 2007.

Where has the influence of European Union biofuel production fitted into all this?

The European Union currently uses less than 1 per cent of its cereal production to make ethanol. This is a drop in the ocean. It uses two-thirds of its rapeseed crop to make biodiesel, but in fact European rapeseed production accounts for about 2 per cent of global oilseed demand. So this is not something to shake the markets.

The effect of the US biofuel programme is somewhat greater. But even that influence is modest compared to others.

According to the OECD Agricultural Outlook for 2006 to 2016, the combined cereal shortfall in North America, Europe and Australia in 2006 was over 60 million tonnes – nearly four times greater than the 17-million-tonne increase in cereal use for ethanol in those countries.

But what about the future? Can we hit a 10-per-cent biofuel usage target in the European Union without putting an excessive strain on our land resources and our food and feed markets?

The Commission's analysis gives a firm "yes" in reply.

However, I'm sure it hasn't escaped your notice that analysis from other sources comes to different conclusions. So it's vital to understand what assumptions have been made in each case.

Essentially, much of the non-Commission analysis takes a static view of the world. By contrast, the Commission doesn't see a frozen world. We see a changing world. So we take into account many factors which other analysis leaves out.

We expect yield increases in the European Union to give us extra cereals – perhaps an extra 34 million tonnes each year by 2020.

Furthermore, we expect the abolition of set-aside to give us about an extra 12-15 million tonnes of cereals.

And we expect second-generation fuels to continue making progress. So in our modelling, we assume that they meet 30 per cent of our biofuel demand in 2020.

(Speaking of technology, I won't mention the huge value that genetically modified crops could have...)

The last factor to take into account is imports. We accept that the European Union will need a certain level of imports to meet our target. In our modelling, we put that level at 20 per cent of our needs in 2020. If second-generation fuels develop more slowly than expected, imports will have to rise.

But importing biofuels need not mean exporting problems.

As I have already explained, we are working on safeguards to ensure that our imports come from sustainable production.

Also, there is plenty of potential in biofuel-exporting countries and elsewhere to raise yields and bring non-utilised and even degraded land into production.

Let's remember that about 21 million hectares of land used for cereals dropped out of use when the Soviet Union split up.

Also, the FAO tells us that Russia could potentially increase its grain yields by 45 per cent, Kazakhstan by 60 per cent and Ukraine by 70 per cent.

And the average grain yield in the developing world is less than half of "Western" levels.

When we also factor in the potential of second-generation fuels, we see that many countries could raise biofuel output without displacing food crops or carrying out harmful land conversion.

Let me end with a quick comment about the role of the Common Agricultural Policy (CAP) in the further development of biofuels. You may have heard that on 20<sup>th</sup> May, the commission will be presenting its proposals for a Health Check of the CAP.

As you know, the CAP currently offers an energy crop aid of €45 per hectare. This is no longer needed – we don't need an incentive for production - and I intend to scrap it as part of the Health Check. I would like to use more money to develop second generation biofuels.

It's time to conclude.

As I have said before, developing our biofuels policy is neither a stroke of genius nor an act of madness. Biofuels won't solve all our problems, but nor will they swallow the world's food supply.

Used correctly, they can be a weapon in the fight against climate change and an insurance policy against fuel supply problems – working in balance with our food needs.

We will not use them correctly if we make them a scapegoat. The problem with a scapegoat is that it's only a symbolic solution. You send the goat into the wilderness, but the real problems remain.

We don't need scapegoats. We need good policy. Let's get the policy right.

Thank you.