

## Splits develop over industry approach to ILUC

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The European Biodiesel Board (EBB) held a press conference this week to reject attempts to introduce factors to account for indirect land-use change (ILUC) into European biofuels policy. However, this week *Reuters* reported that the trade association representing ethanol producers in Europe, ePURE, favoured the rapid introduction of ILUC factors. According to the EBB, two studies, recently conducted by Don O'Connor from (S&T)<sup>2</sup> Consultants Inc. and by researchers at Kiel University indicate that the IFPRI study cannot serve as a basis for policy-making on the highly debatable and unscientific concept of ILUC. The conclusions were presented during a press conference on October, 7th entitled: "Science-based or Science-biased? Is ILUC modelling possible? Implications for European policy drafting on biofuels".

The Renewable Energy Directive 2009/28 (the RED) currently represents the most comprehensive and stringent set of sustainability criteria applying to biofuels production worldwide, guaranteeing that only biofuels with a high sustainability profile are placed on the European market. Yet, the European biodiesel industry has repeatedly expressed its concerns on the way the European Commission is assessing the issue of biofuels Indirect Land Use Change (ILUC). By relying on a unique piece of research, conducted by the US based consultancy IFPRI, the Commission endangers its main goal to provide a fair and scientific-based policymaking.

According to EBB, IFPRI assumptions are rather dubious as to how to assess ILUC as it lacks to consider several aspects of the biodiesel industry. "The indirect land use modelling undertaken by IFPRI has a large number of problems, explains Don O'Connor, and the result is that the ILUC emissions are greatly overestimated." In addition, Kiel Institute for the World Economy states that "in the IFPRI study it is assumed that when land rents increase, for instance through an increase in agricultural prices, new land is converted and taken into agricultural production. This is a strong assumption - which is also noted by the authors of the IFPRI study - since the econometric correlation between cropland expansion and e.g. deforestation has not been shown to be statistically significant".

### **The concept of ILUC is not scientifically proven and IFPRI study reports no concrete facts.**

EBB says that Indirect Land Use Change (ILUC) is a highly debated theoretical concept without any clear scientific consensus. The Renewable Energy Directive (RED) clearly provides that the impact of ILUC, if any, should be based on "the best available scientific evidence, containing a concrete methodology for emissions from carbon stock changes caused by indirect land-use changes". Yet, various studies on ILUC reach diverging conclusions and EBB regrets that the Commission might favour one specific study to others, while no concrete facts emerge. Additionally, it appears that, so far, no consensus has been reached on both aspects.

'It is consequently deplorable that the European Commission is currently grounding its assessment of the potential yet strongly debatable impact of ILUC on biofuels green gas emissions on the US based IFPRI study. An environmental-friendly sector such as the European biodiesel industry should not be penalised (putting at risk its capability to survive) with a legislative proposal on non-verified assumptions and lacking methodologies.

Subjective policy-making could have drastic consequences for such an important industry in the European renewable sector. Europe has today a leadership in world-wide biodiesel production and biodiesel in Europe contributes indeed to considerable renewable energy production and investments as European Biodiesel represent as much as  $\frac{3}{4}$  of the total European biofuels industry. If groundless ILUC penalties were to be adopted this European renewable industry would be under strong threat.,' says the EBB. "One of the paradoxical aspect of hypothetical ILUC legislative penalties against EU biodiesel would be that imported biodiesel from palm oil (produced not in Europe but in countries where deforestation exists) would become probably the easiest and cheapest source for biodiesel production, - said Raffaello Garofalo, Secretary General of the EBB - if not the only one in practice allowed. If

this risks to be the result of European norms on ILUC conceived to guarantee environmental sustainability, clearly there is something wrong in the way in which ILUC and European legislative options on ILUC are thought”.

#### **Studies present IFPRI report missing assumptions.**

Don O'Connor from (S&T)2 Consultants Inc. in particular highlighted strong loopholes in the methodology, and affirms that the IFPRI study misses some strong considerations:

- Land inventory database: is missing all the cropland that is used to produce forages for livestock feed and all of the cropland that is temporary idle, both of which amount for 400 to 500 million hectares,” he said.
- Forage conversion: the model also overestimates the amount of forage converted land because it uses the same value for pasture and managed forest. In reality data suggests that pasture is 20 to 30 times more likely to be converted than forest.
- Co-products modelling: the positive impact of oilseeds coproducts in reducing land use change from animal feed production is largely underestimated. In relation to this, the modelling of the animal feed sector developed by IFPRI is largely debatable as it is based on US rather than EU standards.
- Vegetable oils substitution rates: the study assumes important substitutions effects between vegetable oils, which does not correspond to the reality of the European biodiesel market (technical limitation on palm oil use for instance).

In addition, Professors Lange and Delzeit from Kiel University contribute to the debate by highlighting some challenges such as:

- Assimilation: CGE models in general cannot distinguish between direct Land Use Change and Indirect Land Use Change effects of the biofuel mandate when calculating a Land Use Change factor.
- Uncertainties: The two versions of the IFPRI model have large uncertainties when parameters or assumptions are changed;
- No basis for policy: Kiel University recommends that “results should not be used by policymakers to derive specific ILUC factors
- Lack of Control: ILUC cannot be controlled efficiently by certifying biofuel activities alone.

This is of particular importance as biofuels production is already subject to restrictive measures as per the Renewable Energy Directive (such as the sustainability criteria), and any additional restrictions would be disproportionate (as sustainability criteria does neither have a sectoral approach nor does it apply to other industry that use raw materials. And would have a damaging and lethal effect on the EU biodiesel industry.

#### **EBB recommendations**

This is why EBB strongly advises decision-makers to take into account the following recommendations:

The Commission should acknowledge that IFPRI study as available in Spring 2011 does not provide an unanimous basis to confirm ILUC effects from biodiesel activities and cannot ground a fair, proportionate and valuable regulation.

The Commission should remember the positive effect of biodiesel and biofuels to tackle Climate Change and meeting CO2 emissions reduction targets, advantages that ILUC debate wrongly diminishes.

EBB encourages the Commission and the legislative institutions to refrain from adopting any regulations inspired by such theoretical and unverified scientific concepts. Rather EBB strongly recommends to the Commission to consider every policy options in order to mitigate Climate Change without damaging the European industries competitiveness, nor the economy and employment.

#### ***Industry split?***

In another development, unconfirmed reports from Reuters said that, in a letter to the EU's top climate and energy officials seen by Reuters, bioethanol industry body ePURE said it backs the introduction of EU rules that address ILUC directly. 'A direct approach that penalises crop-specific biofuels for their indirect side-effects could wipe out much of Europe's

estimated EUR13 billion-a-year (\$17.3bn) biodiesel sector. "ePURE will support a policy that... differentiates between good and bad biofuel pathways (and) addresses ILUC directly," said the letter sent to EU energy chief Guenther Oettinger and climate chief Connie Hedegaard in July.' "It is encouraging to see that companies that make better biofuels are starting to recognise that a scientifically credible biofuels policy can actually help them instead of harm them," said Nusa Urbancic of green transport campaigners T&E. "Reaching a consensus on ILUC is challenging as the modelling is incomplete. But it's an opportunity to promote good conventional biofuels, and kick-start a new advanced biofuels industry," Novozymes' European President Lars Christian Hansen told *Reuters*. Although ePURE had not responded to *Enagri's* requests for comment as we went to press, a spokeswoman for the EBB said, "We would like to stress that [ePURE's position] is an unconfirmed report. As a consequence, we do not have any specific comment on this matter." However, she also told Enagri that, "We welcome debate in a democratic way but we continue to believe that there is no scientific ground to debate ILUC, and that the methodology could affect both biodiesel and ethanol productions. I would like to refer again Mr Don O'Connor who has pointed out this morning during the press conference that the results of ILUC are largely overestimated. The entire European biofuel industry and related investment and employment, is at stake".