

EUROPEAN UNION THE ENERGY ISSUE



June 2008



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EUROPEAN UNION THE ENERGY ISSUE 2008

EDITOR DAVID BUCHAN

The pressing energy issue is, to many people, the soaring cost of oil. It eclipses climate change in their minds. And it complicates the short-term politics of moving to a low-carbon economy; voters fear paying an extra double bill – for more expensive petrol and for the capital costs of increasing renewable energy. Yet the long-term economic truth is that the higher the oil price, the lower the extra 'real' cost of developing alternatives, as the European Commission pointed out in its ambitious January 2008 energy and climate change package.

Europe has taken the lead on climate change, partly because others, notably the US, abdicated any such role. As negotiations get under way for a post-Kyoto global agreement, the EU is determined to continue, as Commission president José Manuel Barroso writes, "to lead by example" with policies developed in detail by fellow Commissioners Andris Piebalgs and Stavros Dimas. Some of these policies' broader implications are addressed by the heads of the International Energy Agency and the World Trade Organization in this publication, which also drills down into what is happening in energy market reform, energy trading, renewable development and energy efficiency technology across Europe.

Yet, *The Energy Issue* also takes a global view on global warming that renders ever truer John Donne's dictum that "no man is an island unto himself". Non-European views and actions matter to Europeans, whose climate action could, by itself, be futile, even counterproductive. Luckily, opting out no longer seems an option for the US. John McCain, the Republican presidential candidate and the only clear party nominee at time of publication, endorses "a solid cap-and-trade policy", similar to that used by the EU. But Professor Jiahua Pan warns against trying to make one cap fit all. "It would be unacceptable for the Chinese", he says, not to be allowed some increase in their per capita emissions that are far below EU or US levels. As Tony Blair writes, "we cannot expect obligations to be the same because the stages of development are different".

David Buchan

Editor
June 2008

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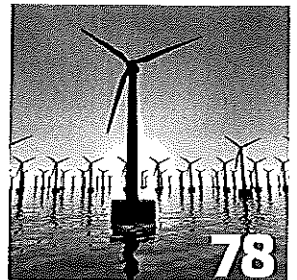
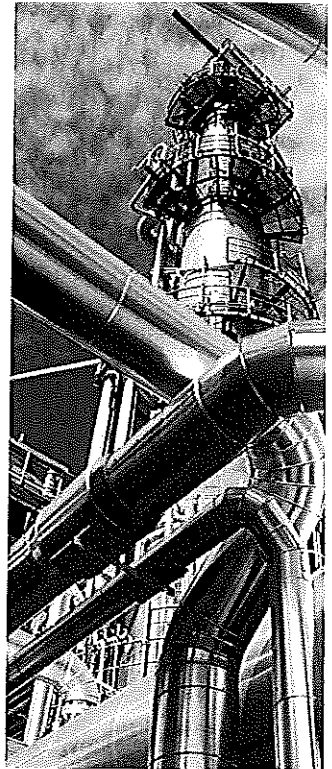
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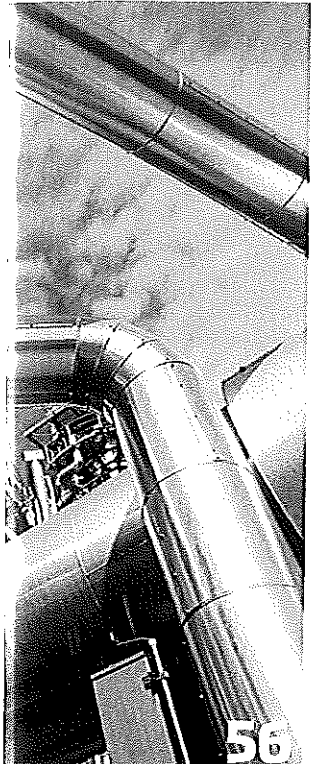
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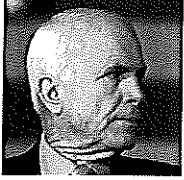
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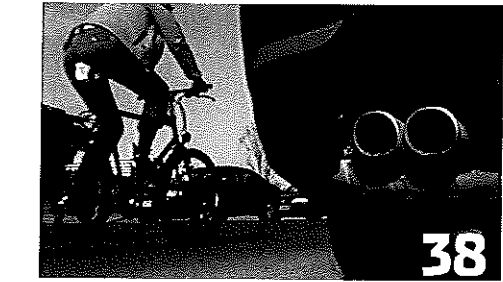
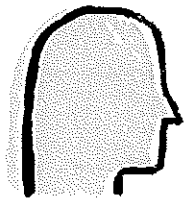
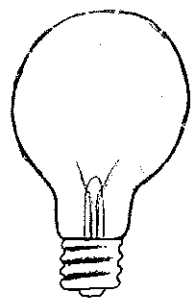
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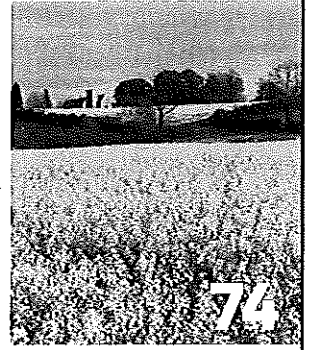
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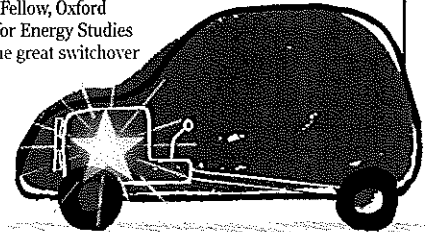
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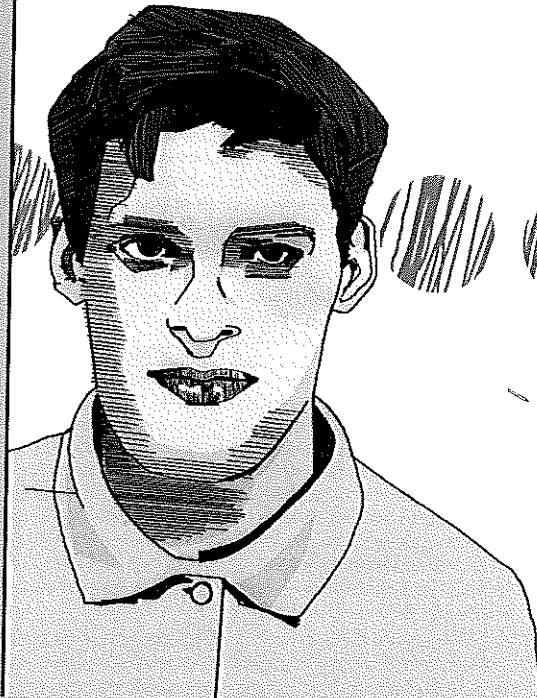
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Q What is the current perspective on biofuels or biodiesel?



In recent months, doubts have arisen about the justification for supporting biofuel development. A negative campaign conceived by economic and political groups opposed to change in the status quo of the fuel and transport sectors has fuelled these doubts and has created number of misconceptions about biofuels.

A 'biofuels fiction' has been created and is replayed day after day in part of the mass media, attacking the 10% EU target proposal. It is worth remembering why the EU biofuel target is a necessary and visionary measure. Two of the most important problems that our global society will have to face in the next few years are preservation of the environment (mainly from climate change) and independence and security of energy supply.

Biodiesel is a valuable answer to both problems. Biodiesel represents today's best solution to reduce greenhouse gases (GHGs) from transport, the only sector where GHGs keep rising exponentially every year. Transport is a highly symbolic and crucial component of our global society

and economy. But, while for all other sectors, various solutions are being applied with some success, GHG emissions from the transport sector are out of control in Europe, as elsewhere.

Oil and fossil energy prices seem to be equally out of control. Yet whereas most oil reserves are out of the direct political and economic control of Europe and of Western countries, biodiesel is an European-made, independent source of energy.

More than 85% of last year's biodiesel production came from Europe's fields, sown, cropped and harvested by thousands of European farmers. The money that was spent on buying and producing biofuels stayed in Europe, supported its own economy, created employment and reduced its external energy dependence from various (more or less democratic) countries in the Middle East.

Biodiesel is the prime biofuel produced and consumed in Europe. It represents more than three-quarters of all biofuels used last year in Europe. Bioethanol is much more developed in Brazil and in the US, but

the EU runs on biodiesel. As a result, Europe is the worldwide leader in biodiesel production with more than six million tonnes processed last year. This represents a crucial opportunity to develop EU excellence in a highly strategic sector for future years.

It would be catastrophic if the temporary rise in global feedstock and food prices were to halt biodiesel development. Food prices are rising together with oil prices because of the explosion of the raw materials demand from China and India, and because of the extremely bad harvest of last year in areas such as Australia where climate change is bringing desertification. Would it make sense to stop biodiesel development that could reduce climate change because agricultural activities were becoming difficult in some areas of the planet, mainly due to climate change?

Nonetheless, some observers are convinced that food prices are increasing because of biofuels. Yet if biodiesel had such an influence on food prices, why are meat and milk products prices increasing exponentially, when every ton of biodiesel results in the automatic production of 1.5 to two tonnes of animal feeding stuffs? The oil content of oilseeds such as rape or soy varies between 23% and 42%, and the remaining part becomes feed for the cattle and milk sector.

Few people know that the more biodiesel is produced, the more milk and meat are produced. If biodiesel had an impact on food products, this should lead to lower milk and meat prices, countering the substantial increase that we are experiencing, clearly determined by other factors, including speculation. Moreover, since biofuels are a newcomer to the world economy, they are often used as a scapegoat for other problems.

Q What does the industry think of the Commission's proposed environmental standards for biofuel to qualify for financial assistance and to count towards national targets?

A European biodiesel producers are fully committed to producing a sustainable product from certified raw materials. The proposals made by the European Commission in January 2008 will establish a set of extremely strict sustainability and certification rules that will make biodiesel one of the most strictly monitored and certified products sold worldwide. This should be largely enough to prevent any negative side effect.

Not even diamonds or drugs (do we know if a diamond is produced in an environmentally sustainable way? do we know from which part of the world a drug molecule comes?) are so strictly monitored as biodiesel and biofuels will be, once the rules proposed by the EC Commission come into force. EU biodiesel producers support them as a positive challenge. Biodiesel will create a precedent as the most strictly monitored product sold and traded worldwide.

As European trade commissioner Peter Mandelson recently pointed out: "The issue is not biofuels or no biofuels, but the right biofuels." It is clear that the unprecedented set of certification and sustainability criteria proposed by the Commission and accepted by our industry is already more than enough to guarantee that any of the 'wrong' biofuels will be left aside.

But there are still those who claim that this is not enough. What are they looking for? Do they want to support the 'right' biofuels or just support the suppression of all biofuels by claiming that even the strictest certification and sustainability system ever conceived worldwide is insufficient?

Q Does the European biofuel and biodiesel industry accept the need for some imports, even if it objects to subsidised competition from outside the EU?

A Most agricultural raw materials for biodiesel come from the EU, and there is evidence that the EU has the potential for providing the large majority of what will be needed to fulfil the 10% target by 2020. Such potential becomes even bigger if the agricultural areas of some other European countries, such as Ukraine, are included.

Biodiesel is a green, European-made energy. But imports from other countries can represent an asset and should be encouraged, especially from developing countries where biodiesel can help to increase employment and combat rural depopulation. Few people know, for instance, that the agricultural surfaces of many African countries are 80% unexploited.

The EU should therefore be open to biodiesel imports and even encourage the imports of biodiesel raw materials, provided that they comply with the strict sustainability criteria defined by the European Commission.

On the other hand, imports of heavily subsidised biodiesel, notably US-produced biodiesel dumped in the EU under the so-called B99 scheme, are unacceptable. EU producers have already lodged a double complaint with the EU authorities in order to stop such unfair practice.

Biodiesel represents an opportunity to mitigate climate change and reduce energy import dependence for many countries. It would be unreasonable to lose such an opportunity because of unjustified, irrational fears fuelled by part of the press or, worse, because the EU was not able to come up with an appropriate reaction to aggressive US commercial policy on biodiesel. ☺