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Biofuels: not a magic wand, but a valuable policy tool

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I'm very pleased to join you today at what I expect to be a very stimulating conference.

I enjoy talking about biofuels. I enjoy it because I find new technologies exciting. And I enjoy it because public debate about biofuels has really taken off in the last year or so.

That debate is sometimes characterised by very strong opinions.

To some commentators, promoting biofuels is a stroke of genius. When they hear the word "biofuels", in their mind's eye they see shiny modern production plants, cities that can breathe freely again, and happy farmers with good wage packets in their pocket – even in poorer countries.

To others, promoting biofuels is not a stroke of genius but an act of madness. When they hear the word "biofuels", they see rainforests crashing to the ground. They see valuable crops used to feed SUVs (sports utility vehicles) instead of people.

Biofuels are controversial, and so is European policy on the subject. But in fact it has a solid justification. I would like to explain that justification today, so that everyone in the sector – within the European Union and outside – can be confident that no policy u-turns lie ahead.

First, let's understand the context.

The European Union is developing a wide and ambitious political framework on climate and energy in order to curb its greenhouse gas emissions by 20% in 2020.

A cornerstone of this package is a policy on renewable energy. Biofuels seem to have stolen the show in terms of media attention, but in terms of policy, they are not the only show in town.

Yes, we want to develop new fuels. But we also want electricity, - as well as heating and cooling - from wind, water, wood, manure, urban waste....The list of sources of renewable energy of various types is a long list. And as far as agriculture is concerned, biofuels represent only a part of what we can do with biomass in general to produce energy.

But biofuels must be a part of the future of sustainable energy production. As European heads of state and government made clear in March last year, this is European Union policy – for very good reasons.

The first reason is this: biofuels are an important weapon in the fight against climate change.

The transport sector is pouring greenhouse gases into our air, 365 days a year.

Transport is already responsible for more than one-fifth 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 damaging growth under control - together with other policies, for example in the field of car emissions or organisation of transport logistics.

Secondly, biofuels are an insurance policy against future energy supply problems.

Our transport sector's dependence on imported oil is 98 per cent! So many of us will have quite a problem getting to the office if the taps are turned off one day.

Even before oil supplies run out and traffic grinds to a halt, shortages will continue to be a real danger, for economic and political reasons. And I need hardly say that oil prices of more than 100 dollars per barrel are not good news for inflation!

So we need to diversify our sources of fuel. Greater energy security is a vital goal of our energy policy, and biofuels are part of the answer.

In view of these two concerns – climate change and energy insecurity – the European Union has agreed to set a binding target. By 2020, every European Union Member State must draw 10 per cent of its transport fuel supply from biofuels.

Heads of state and government, as well as the Commission, believe this target is very necessary.

It's true that, in general, we have proposed to give Member States a lot of freedom as to how they achieve their targets for using renewable energy and reducing greenhouse gas emissions.

But with regard to biofuels, a patchwork of different approaches across Member States simply will not deliver results.

Only if the European Union moves together can we be confident of building a well-functioning internal market for biofuels, with all the advantages that this will bring.

Only if we move together can we bring down production costs far enough to make second-generation fuels economically viable.

And only if we move together – with clear objectives at European level – can we give confidence to investors.

If we don't move together, several things are likely to happen.

- We will probably end up with marginal domestic production in a fragmented internal market.
- Greenhouse gas emissions from transport will probably continue to increase, this sector will not meet its reduction targets, and other sectors will have to take the strain.
- Our fuel supply will continue to be a hostage to fortune.
- And we will hand over leadership in technological development. Without a good domestic production base, the more innovative and efficient products will probably never take off. Whereas in fact, we need to use first-generation biofuels as a bridge to the second generation – and we need to step out bravely onto that bridge now.

These are the basic arguments in favour of the 10 per cent target. I know that various objections have been raised, and the Commission takes them seriously. But we believe we can answer them.

The first objection is that using first-generation biofuels in many cases supposedly does not cut greenhouse gas emissions.

It's true that some biofuels don't show clear benefits. So let's simply not use them!

On the other hand, most biofuels do actually offer benefits compared to fossil alternatives.

Typically, biodiesel made from European-grown rapeseed makes a greenhouse gas saving of 44 per cent compared to fossil fuels. The typical figure for ethanol made from sugar beet is 48 per cent. I could cite other very positive values.

Under the rules proposed by the Commission, 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. That's a very healthy difference. And the standard applies both to domestic production and to imports.

Let's be clear that, when calculating this saving, we do propose to take into account the value of by-products such as animal feed.

This is the right thing to do. If we don't get the feed as a by-product, we will simply use feed produced conventionally. And of course, conventional production needs both land and energy!

And believe me: our farm sector is crying out for feed at reasonable prices! If you doubt that, go to an agricultural show in Europe and talk to the farmers, as I have already been doing this year. Their message could not have been clearer.

The second objection to the 10 per cent target is that it will mean destructive land conversion. In other words, to make way for energy crops, those with an eye for profit will supposedly clear away valued forests and grasslands – along with the animals that live there - or release carbon from land with high carbon stocks.

The Commission recognises these dangers and has proposed the following: no biofuel would count towards a Member State's usage target if it does not meet strict sustainability criteria. For example, this would exclude biofuels coming from:

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

Once again, these constraints would apply both to domestic production and to imports.

The final objection to the 10 per cent target is all about the supposed impact of biofuel policy on commodity prices.

You know the basic argument: that more biofuels means painfully high prices, and therefore less food for the poor.

I should say straight away that price increases are not always a bad thing. European farmers have been waiting for prices to stop declining in real terms for two decades or more! And higher prices can be good news for the between 70 - 80 per cent of the world's poorest people who live in rural areas and rely on farming for their livelihood.

Of course, very high prices can cause problems. But it's not fair to make biofuels a scapegoat for the extreme market movements of recent times.

The general increase in demand from powerful emerging economies has been very important. So has the poor weather in key production regions with bad harvests in the EU and Australia.

As the OECD comments, cereal use for ethanol in Europe, North America and Asia increased by 17 million tonnes in 2006. But in the same year, the combined cereals supply shortfall in these countries was 60 million tonnes – nearly four times as much! Clearly, this was not just a “biofuels story”.

But the essential point concerns the future. By fixing a biofuels usage target of 10 per cent, the European Union has not made a leap in the dark. We have done our homework. And that homework suggests that we can meet that target without putting excessive strain on our food and feed markets.

According to our modelling, in a realistic scenario we would be using about 15 per cent of our arable land for biofuel production in 2020.

From a European point of view, we would expect this to raise cereals prices by something between 3 to 6 per cent, and rapeseed prices by between 8 and 10 per cent. This is manageable. At the same time, feed prices would fall significantly!

This modelling takes into account various factors which have been left out of some studies.

- It takes into account yield increases – which we can reasonably expect to give us an extra 34 million tonnes of cereals per year by 2020. And I'm not even mentioning GMO's.
- It takes into account arable set-aside – which could give us an extra 12 million tonnes of cereals.
- It takes into account the progress we are making towards viable second-generation fuels.
- And it takes into account a reasonable level of imports. We accept that we will need a certain level of imports to meet our target. If second-generation fuels develop more slowly than expected, imports will simply have to rise.

At present, the Common Agricultural Policy offers an energy crop aid of € 45 per hectare. I think this is no longer the best way of moving the bioenergy sector forwards at farm level. So within the Health Check of the Common Agricultural Policy, which I will present on the 20th of May, I will propose to abolish the aid and use the money else where in a more forward looking way.

- Also within the Health Check, I will propose to make more funding available for our rural development policy.

I'm coming to the end of what I wanted to say. Let me finish with a message of encouragement.

Many of you have a practical interest in biofuels. You want to “make things happen”. So does the Commission.

Is the European Union's developing biofuels policy a stroke of genius or an act of madness? It's neither. It's a real policy for the real world – which is not a black-and-white world.

Biofuels are not a magic wand with which we can wave away all our problems. But they are a valuable new tool for the policy toolbox. We must not over-use or under-use this tool. We must learn to use it in the right way, in combination with our other policy tools, to get the best results.

The European Commission and Europe's national leaders are committed to doing just this. Please keep working with us to make it happen!

Thank you.