Bioethanol development in Europe and opportunities for European agriculture

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Ladies and Gentlemen,

It is a great pleasure for me to attend your Congress.
I am very familiar with the sugar sector and remember the long hours of negotiations during Agricultural Council in November 2005. After these past years, we can finally claim that the objective of the sugar reform has been reached in terms of quota cut. In particular, I would welcome the development of biofuels that provides an opportunity to support the sector while it is being restructured.

Today, I will respond to the following three questions:

1. What prospects are opened up to European beet growers within the framework of the directive on the promotion of energy from renewable sources?

2. What is the state of the Community ethanol market?

3. What proposals does Copa-Cogeca have to ensure that the framework conditions foster the development of this sector?

What prospects are opened up to European beet growers within the framework of the directive on the promotion of energy from renewable sources?

The promotion of energy from agricultural and forestry sources is one of Copa-Cogeca's priorities, and our Working Party on Bioenergy/Biotechnology is leading the way on this issue. The outcome of the 2008 inter-institutional negotiations was generally positive. I would highlight the following:

- The maintenance of the compulsory target of 10% of energy produced from renewables in all forms of transport in 2020
- The compliance of biofuels and bioliquids with sustainability criteria, irrespective of whether the raw materials were produced on EU land or elsewhere
- In the case of raw materials produced in the EU and intended for use in the manufacture of biofuels, compliance with EU environmental legislation as laid down under cross-compliance in the CAP's single payment scheme
- The obligation for third countries to ratify and implement the International Labour Organisation's agreements as well as the Cartagena Protocol on the Prevention of Biotechnology Risks and the Convention on the International Trade in Endangered Species of Wild Fauna and Flora
- The method selected to calculate greenhouse gas emission reductions is not what was initially proposed by the automobile and oil industries' research body. The basic data used to calculate default values have been improved.

It is difficult to predict how the bioethanol market will look in 2020 given the numerous factors that need to be taken into consideration. These include:

- Improving energy efficiency
- Developments in excise duty rates for diesel and petrol
- Developments in transport policy
- Developments in vehicle fleets: diesel engines, petrol engines, the introduction of hybrid engines.

According to the European Bioethanol Fuel Association, eBio, the bioethanol fuel market in 2020 is expected to represent some 13 to 18 billion litres. It is difficult to make predictions as to what outlets will be available to sugar beet in 2020. There will be imports, there will be second or even third generation bioethanol to a certain degree.

What we *can* say is that the EU currently has a bioethanol production capacity of some 6 billion litres, and EU production in 2008 bordered on 3 billion litres.
Capacity of an extra 2.5 billion litres is currently under construction.

What is the state of the Community ethanol market?

EU demand for ethanol increased by 54% between 2004 and 2007. Demand remains stable for traditional purposes while demand for ethanol for carburation is increasing: in 2007, it represented 52% of the market.

EU ethanol production is keeping up with demand, increasing by 60% between 2004 and 2007, mainly from wheat and beet. In 2007 in particular, ethanol produced from beet represented 33% of the total production of agricultural alcohol 'for all purposes', and 37% of total fuel ethanol production, with this percentage therefore having more than doubled since 2006.

Imports are up, amounting to 40% of production. These imports do not offset the gap between EU production and consumption, but take a share of the market from EU production, with the EU's production capacity not fully exploited.

The restructuring of the sugar sector has reduced the availability of molasses for the chemical fermentation industry and, to a lesser extent, for ethanol production, because, thanks to technological progress, businesses have modernised and today produce ethanol either from raw juice during the beet campaign, or from thick juice or marginally from molasses outside of the beet campaign. Several factories also use these juices together with substrates from the processing of cereals.

The price of a barrel of oil, the price of agricultural raw materials and technological advancement are all factors that will influence the sector's development. In 2007, ethanol production from beet was equivalent to 170 000 hectares of agricultural land. If the capacity to produce ethanol from beet currently planned is brought to fruition, land used for ethanol beet production in 2010 could amount to 380 000 ha, but the land potentially available for beet growing is far higher, if we remember that the reform of the CMO for sugar freed up 900 000 hectares. Will it be used for industrial and ethanol beet at a remunerative price in the future? Pending the response to this question, which as it happens is the topic of the next panel discussion, Copa-Cogeca is keeping a watchful eye on the legislation, which is needed to ensure that we end up with a framework which fosters the sector's development.

What proposals does Copa-Cogeca have to ensure that the framework conditions foster the development of the bioethanol sector?

On the issue of imports, Copa-Cogeca is asking the European Commission to adopt a **balanced approach**.

The duty-free importing of raw materials used for producing bioethanol and denatured or undenatured ethyl alcohol of agricultural origin goes against the objective of establishing EU biofuels production on the basis of local raw materials. If the market access conditions for imported bioethanol become more favourable than those laid down in the current trade agreements, the European Union will not reduce its energy dependency and will not stimulate the creation of jobs expected from the use of biomass in the EU's rural areas. Copa-Cogeca has taken an opposing stance to the requests for Brazilian ethanol to be imported under customs control for processing into renewable fuels with both a high and low bioethanol content.

In order to prevent the circumvention of tariff headings and the importing, for example in Sweden, of bioethanol that has been blended with chemical substances under chapter 38 whose customs duty amounts to only 6.5% ad valorem, i.e. €2.3/hl compared with €19.2/hl for undenatured ethanol and €10.2/hl for denatured ethanol, Copa-Cogeca asks for a specific tariff heading to be set for ethyl alcohol of agricultural origin to be used for fuel purposes.

The European Commission must see to it that the sustainability criteria applied to imports are equivalent to those applied to EU production. Within the framework of the directive on the promotion of energy produced from renewable sources, the European Commission must establish the appropriate methodology to decide upon equivalence between the demands of the directive and those of the voluntary national or international schemes. The European Commission must not accept any voluntary certification scheme applicable to raw materials produced in the EU because cross-compliance applies.

The European Commission should see to it that neither raw agricultural or forestry materials nor biofuels imported into the EU receive public subsidies twice.

In the framework of the Doha Round, Copa-Cogeca asks that the European Commission oppose the classification of biofuels in the list of environmental goods under the environment section, since goods on this list may be imported duty-free, or almost.

The Copa-Cogeca member organisations must make sure that the **directive on the promotion of energy produced from renewable sources is properly implemented in the Member States.**

The Member States must transpose the directive into national legislation no more than 18 months after it has been published in the Official Journal of the European Community. They have to notify the European Commission of their action plan by June 2010.

Within this time frame, we must make sure that the compulsory incorporation of 10% bioethanol by 2020 comes with a penalty scheme to penalise oil companies that do not comply with the incorporation obligations. The direct incorporation of ethanol into petrol can be limited through compliance with the vapour pressure standard for petrol. Nevertheless, the directive on fuel quality allows those Member States that so wish to derogate from the vapour pressure standard. The development of E-10 is a feasible solution and therefore one to be pursued. In France, E-10 has been on the market since 1st April 2009. In Sweden, the government is expected to make a proposal in Spring 2010 and Swedish farmers (LRF) hope that E-10 will be introduced on 1st January 2011.

When it comes to the greenhouse gas emissions produced by biofuels, any gains will result more from advances in industrial procedures rather than in the agricultural production phase, where there is little leeway. It must be ensured that Member States notify the European Commission of those regions where the greenhouse gas emissions stemming from agricultural production are lower than default values by 31 March 2010. The aim should be for the whole of the EU to be notified; it would therefore be enough to declare the raw material's origin, which would reduce red tape for farmers.

In terms of sustainability criteria and their control, in parallel with the work of the European Standardisation Committee, national and international certification initiatives are becoming increasingly prevalent. Both in the EU and in the Member States, the committees are largely dominated by representatives of the petrochemical industry. Over the medium-term, all of this work is likely to impact upon the cross-compliance of the single payment scheme. It is therefore necessary that we take part in the work of the European Standardisation Committee and the mirror groups set up by the national standardisation institutes.

In spring 2010, the European Commission will present a report on the indirect effect of land use change (ILUC), accompanied with appropriate proposals. In Copa-Cogeca's view, if the so-called ILUC factor is introduced in the method to calculate greenhouse gas emission reductions, it is essential that bioethanol from sugar beet and from cereals receive a bonus. Indeed, the co-products from bioethanol production are used in cattle feed as a substitute for soy cakes from the USA and South America. EU bioethanol production alleviates the pressure placed upon non-EU countries to produce soy.

With regard to the proposed directive revising **the taxation of energy and energy products**, the European Commission is preparing a package on environmental taxation which would include the revision of the directive on the taxation of energy and energy products. The plan would therefore be to index the taxation of fuels, whether renewable or not, on their energy content, and also to introduce a specific tax component for CO^2 for fossil fuels. This approach goes in the right direction. On the other hand, it could propose to delete article 16 of Directive 2003/96/EC enabling Member States to reduce the excise duty rate or exempt biofuels under customs control. This kind of measure is too premature, and could seriously jeopardise the burgeoning European bioethanol industry, which would then bear the full brunt of competition from Brazil, where the industry is mature and owes its competitiveness to the relentless support of the public powers over the last three decades. Copa-Cogeca therefore asks that Member States continue to be allowed to reduce the excise duty rate or exempt biofuels under customs control.

In conclusion, the development of biofuels provides an opportunity to support the restructuring of the sugar beet sector and opens new doors for European farmers. That being said, we need to make sure that EU production and imports are balanced, and that the EU's policies on energy, the environment and taxation are consistent.

Thank you for your attention.