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Potential impacts of the EC proposal on developing and least developed countries seeking participation in the global biofuels market

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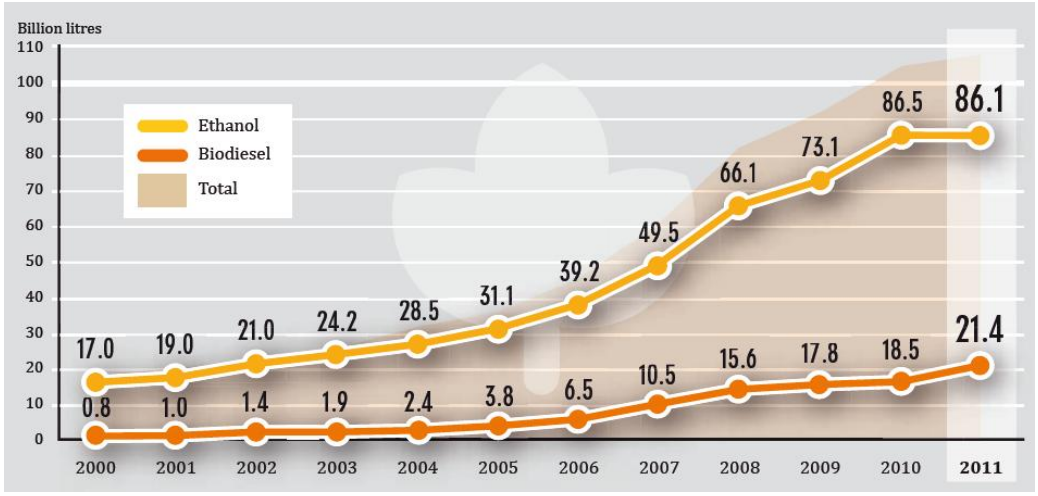
Overview

- **(1) Background:** Biofuels development, where we are
- **(2) RED+Sustainability** -> implications
- **(3) New EC proposal**: potential interaction with current market rules and effects on developing country producers

Background

- Push for renewables: limited options for transport sector
- Constellation of factors still present: Climate Change, Energy Security, Employment Creation, seek for edge in new technologies: *All keep interest in biofuels afloat*.



Source: REN21

Market growth not exponential as McKinsey (2007) and Matthews (2007) predicted, but still significative.

Sustainability

- Regulatory landscapes established in BR, US and EU – concentrate the largest biofuel markets.
- EU: strong push for sustainability criteria with RED/FQD.

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Sustainability certification

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Costs to producers

Certification costs

Costs

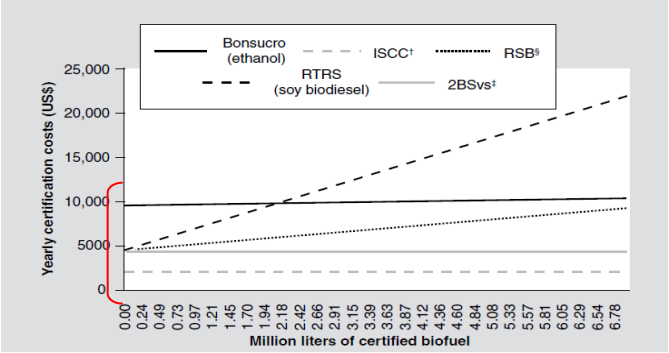
Direct costs

-Certification fees (5-10k USD minimum)

-Auditing fees

-Information costs

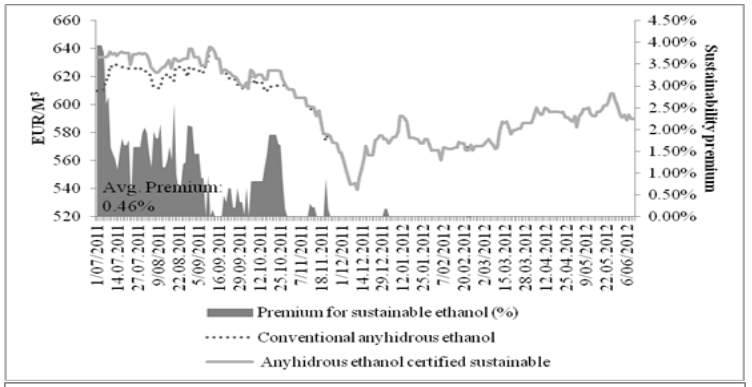
-Changes to management systems

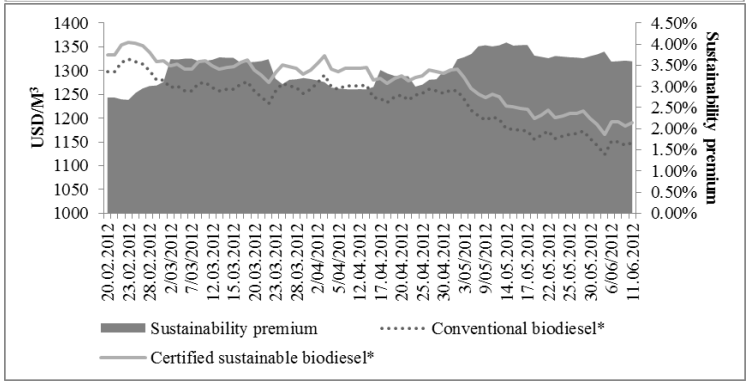


Indirect costs

-Internal adaptation costs (can be very high…)

Premiums?



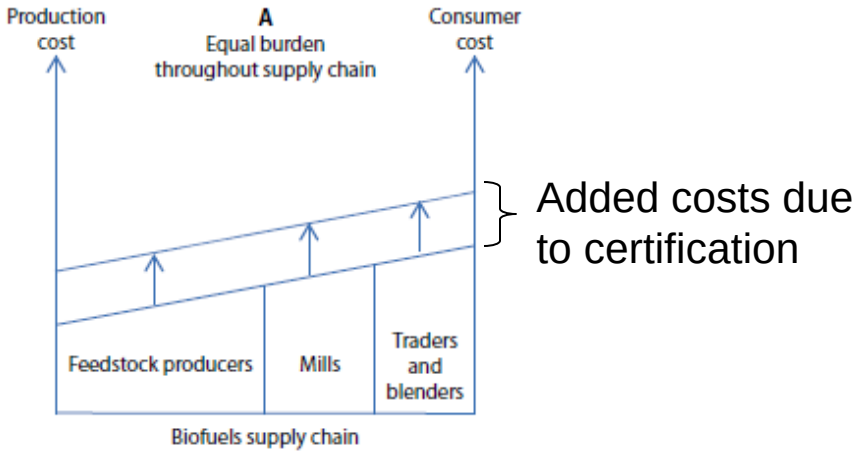


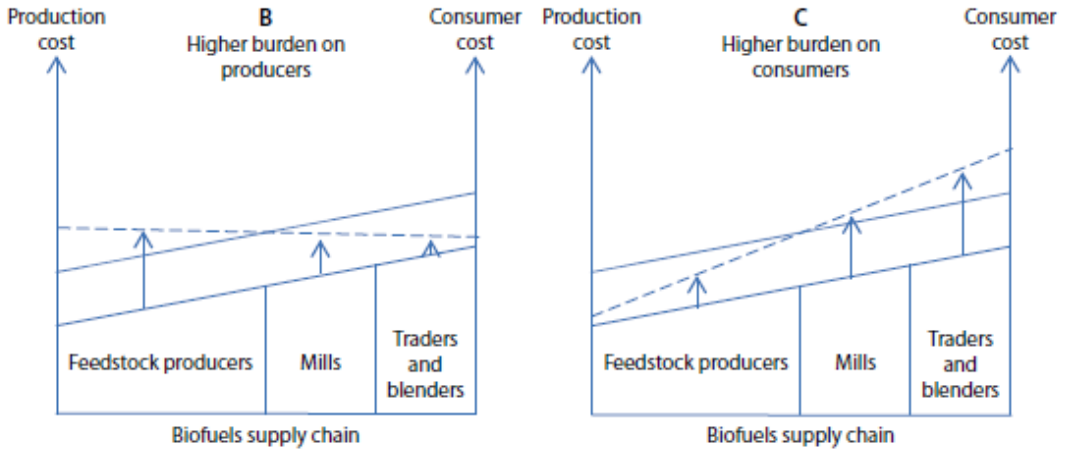
In the words of a trader:

"*Today there is no market for non-certified product. You have to make it better but no one will pay anything extra for it*".

Who pays for certification

Small producers: the weakest link in the production chain?





Source: CIFOR 2012

"push-the-bill-to-the-weakest effect"

EU Certification costs: How markets react?

- **1- Compliance?**
  - Certification for multiple purposes
  - Bonsucro, RTRS and RSB offer additional market facilities such as certification for sugar (required by large buyers such as Kraft foods and Coca-Cola in Brazil), certificate trading and cross-compliance with other certification systems such as the Rainforest Alliance – reduces dependence on EU market / policy-change risks
- **2- Leakage**
  - EU GHG-centric sustainability approach not necessarily priority for Africa/Asia/Latin American countries (eg. Mexico, Guatemala)
  - Intra-regional and South-South biofuels trade developing: « "non-EU compliant" biofuels still fulfil developmental roles as cooking fuel (e.g. Gaia) and electricity generation (e.g. IME/Amazon).

New EU proposal

- **State of play:** RED introduced sustainability requirements, which brought new costs to the market. Thus, certification had its price and producers invested to comply.

- **The proposed update in the RED:** seek transition to biofuels which deliver substantial GHG savings even when iLUC is considered.
  - limiting food-based biofuels to only 5% of the 10% target for renewables in transport by 2020, the EU market would start to look like the US market - segmented in "conventional" and "advanced" biofuels.
- **While EU-US policy convergence is desired, it can be also risky**.
  - EU narrowing scope from "how biofuels are made" to "Which biofuels are accepted" carry risks linked to technology bets (e.g. US off-track to meet adv. biofuels mandate)

New EU proposal (2)

- EC Proposal is wise to promote a shift of subsidies from 1st to 2nd gen biofuels.
- Grandfathering facilities for 5% cap (end of 2013) and 60% GHG threeshold (mid 2014)
  - Directly impacts planned biofuel projects in developing countries.
- Increased weighting (4x) of adv. Biofuels towards 10% target
  - More research needed to understand if this really promote market traction.

New EU proposal – Developing countries?

- 5% cap on 1st gen biofuel utilization **would limit the market most accessible to developing countries**, as well as would somehow deceive the investments made by producers in sustainability certification.
  - Winners: those who hedged their bets via multi-purpose certification (sugar, forestry, etc)
- As Europe has already enough native production capacity to produce almost all of the 5% which would be limited to 1st gen: **International competition would occur mainly in advanced biofuels**.
- The growing technological gap for developing countries in this market could difficult their participation.
- Strategies for investment and technology transfer would be necessary to secure a level playing field for developing countries, in case the proposed changes to the RED are adopted.

Conclusion

- Approaching post-2015 – MDGs turning into SDGs. Important to ensure energy sustainability for all, including Biofuels.
- EU has been bold on its push to make biofuels ***better*** – sustainability, iLUC – EC deserves respect for tackling difficult political and technical challenges.
- Attention should be given to speed on which biofuels are regulated, vs other sectors (e.g. fossil fuels, facilitating transport modal shift, carbon pricing, biomass, agriculture, etc) in overall achievement of climate goals
- Remember areas where biofuels can have strong human development effects: Why spend millions in foreign aid if market and technology acess could allow regions to flourish via better energy services?
  - Developing countries should not be left out of the market.

Thank you!

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