

Will European trade undermine the EU's move to clean biofuels?

The urgent need for EU trade policy coherence and the transition towards cleaner biofuels

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Executive summary

The EU is negotiating trade deals with Mercosur (Argentina, Brazil, Paraguay and Uruguay) Indonesia, and soon Malaysia, These trade deals represent a risk for the EU's sustainable transport plans. All mentioned countries are producers and exporters of crop-based biofuels, especially from palm and soybean oil that have higher overall emissions than fossil diesel. All ongoing negotiations include chapters on Energy and Raw Materials (ERM). One of the objectives of the planned trade agreements is to facilitate trade in these areas, which will reduce the cost of raw materials and biofuels originating from the abovementioned countries. At the same time the EU is committed to decarbonising the transport sector and to phasing out crop-based biofuels. In 2016, the Commission made a proposal to cap so- called 1st generation biofuels at 3.8% by 2030 as part of its Renewable Energy Directive (RED). Instead the EU wants to increase the supply of clean electricity as well as advanced biofuels as transport energy.

There is a risk that these two approaches - the planned trade agreements and the RED I and II initiatives - will be at odds with each other. First of all, even though the Commission is signaling its move away from crop-based biofuels, there will still remain demand for those biofuels (within the proposed crop cap of 3.8%). Once the trade deals are concluded, this demand will increasingly be met by cheap, unsustainable crop-based biofuels from South America and South East Asia. Removal of trade barriers would thus likely lead to increasing shares of unsustainable crop- based biofuels from these regions. This could lead to additional deforestation, biodiversity loss and higher overall greenhouse gas (GHG) emissions from biofuels. The EU monitors but does not account for the indirect land use change effects (ILUC) of biofuels. The ILUC impacts of palm and soybean oil are a major contributor to their negative environmental impacts. Secondly, the EU's new trade partners will put pressure on the European Commission to adopt more lenient internal policies to facilitate trade. There is an important precedent where Canadian pressure, as part of the CETA deal, helped scupper the EU's Fuel Quality Directive, which would have discouraged the use of Canada's high GHG emissions tar sands.ⁱ Argentina has already raised the compatibility of the EU's biofuels sustainability criteria at the WTO.ⁱⁱ Additionally, Indonesia and Malaysia announced that they would send a delegation to "kill" the initiativeⁱⁱⁱ, shortly after the European Parliament adopted a report calling for a phase-out of vegetable oils causing deforestation as a component for biofuels.

While the main driver for the presence of unsustainable crop-based biofuels in the EU is the RED, our report recommends four trade policy approaches to ensure that trade does not contribute to the use of unsustainable crop-based biofuels:

1. A ‘public interest screen’ that includes climate and environmentally friendly criteria should be employed during all FTA negotiations to determine which goods should be subject to potential tariff reductions. Goods with significant negative climate and environmental impacts should be excluded from tariff reductions.
2. A modern ERM chapter in a free trade agreement (FTA) ensuring the post-Paris mass decarbonisation in the energy and transport sector.
3. The incorporation of environmental criteria such as GHG implications, land use, water and air quality and environmental dumping during investigations for the imposition of anti-dumping duties.
4. A reform of the Harmonised System (HS) Nomenclature at the World Customs Organisation (WCO) that would make a clear distinction between sustainable advanced biofuels (e.g. from waste and residues and unsustainable biofuels from food crops, as well as reporting a breakdown of the raw material used in blended biofuels.

Without a meaningful, effective and coherent policy alignment, the EU risks losing its credibility on effectively tackling climate change in a sustainable manner and delivering ‘gold standard’ trade agreements.

For more information, contact:

Kristina Wittkopp
Legal Analyst, Better Trade and Regulation
Transport & Environment
kristina.wittkopp@transportenvironment.org
Tel: +32 (0)488 927946

Endnotes

ⁱ Long-awaited fuel quality rules will fail to halt dirty oil' available at <https://www.transportenvironment.org/news/long-awaited-fuel-quality-rules-will-fail-halt-dirty-oil> (retrieved 1.6.2017)

ⁱⁱ WT/DS459/1 Request for consultation of 23 May 2013 available at https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds459_e.htm (retrieved 30.5.2017)

ⁱⁱⁱ Indonesia and Malaysia look to ‘kill’ Parliament’s palm oil ban available at <http://www.euractiv.com/section/biofuels/news/indonesia-and-malaysia-look-to-kill-parliaments-palm-oil-ban/> (retrieved 30.5.2017); Indonesia and Malaysia look to ‘kill’ Parliament’s palm oil ban available at <http://www.euractiv.com/section/biofuels/news/indonesia-and-malaysia-look-to-kill-parliaments-palm-oil-ban/> (retrieved 17.5.2017); Letter to EP President Tajani signed by Costa Rica, Ecuador, Honduras, Indonesia, Malaysia, Colombia and Guatemala, available at http://www.politico.eu/wp-content/uploads/2017/03/Joint-Letter-Palm-oil.pdf?utm_source=POLITICO.EU&utm_campaign=567157ccb6-EMAIL_CAMPAIGN_2017_03_28&utm_medium=email&utm_term=0_10959edeb5-567157ccb6-189902969 (retrieved 17.5.2017)