**Useful Background**

**Recent policy changes in the European Union (EU) could limit or affect Australia’s canola exports to the EU.**

In September 2013, the European Parliament voted to cap the amount of biofuel that can be derived from food crops, or “conventional” biofuels. The new cap was to be 6%, rather than the then current cap of 10%. Back in July 2013 the European Parliamentary Environment Committee had voted for a lesser cap of 5.5% but the full European Parliament did not endorse that more restrictive cap, and instead opted for a slightly increased cap of 6%.

The lower cap was designed to give less incentive for the use of conventional or “first generation” biofuels such as biodiesel that is derived from European rapeseed or imported canola or imported palm oil. Opposition to these biofuels arose within the EU due to evidence that farmland was being diverted away from food production to fuel production and that forestland in developing countries was being removed and replaced with sugar cane and palm oil plantations.

The proposed cap of 6% (announced in September 2013) more closely reflected recent use of biofuel in the EU. For example, the use of biofuel was 4.7% (on a volume basis) in 2010 within the EU, up from 1.2% in 2005, with some EU countries such as Sweden, the Czech Republic, Germany and France already being above the proposed 6% cap.

The 6% cap had to be approved by each government within the EU before it could take effect. Since December 2013, various EU Council bodies have worked towards gaining the required governments’ agreement. This agreement was finally reached in June 2014, but with a slight relaxation of the cap.

As of less than a month ago, the EU political agreement is that "first generation" biofuels (e.g. biodiesel made from canola) cannot exceed 7% of the final energy consumption in transport fuel by 2020, as opposed to the current 10% target in existing legislation or the 6% initially supported by the European Parliament back in September 2013.

In the EU the main biofuel for transport is biodiesel. In 2012 it accounted for about 70 percent of the biofuels market on volume basis. Hence, because biodiesel is the main source of biofuel, the demand for its feedstocks (e.g. canola and palm oil) will be most affected by the reduced cap (10% down to 7%). The reduced cap lessens the *potential* demand for using crops like canola or palm oil in biodiesel production, but more realistically limits their levels of use close to current levels.

Over the past 3 and 5 years, 62% and 52% respectively of Australia's canola exports have been to the EU. So the EU is currently an important market for Australian canola, especially for non-GM canola, as the EU offers a price premium for non-GM canola. The magnitude of this premium has varied in recent years from $10 to $50 per tonne. Currently about 70 per cent of the canola Australia exports to the EU is used for biodiesel production. Hence, the EU biodiesel market is an important outlet for Australian canola.

Aside from the 7% cap on use of “first generation” fuels, the use of such fuels is also affected by EU policy changes regarding emissions reduction. Already the EU has introduced higher thresholds for greenhouse gas emission savings. Article 17 of the EU’s Renewable Energy Directive (RED) dictates that irrespective of whether a biofuel’s raw materials are cultivated inside or outside the EU the greenhouse gas emission saving from the use of the biofuel must be at least 35 %. Moreover, with effect from 1 January 2017, these greenhouse gas emission savings must be at least 50 %. Then, from 1 January 2018 these emission savings need to be at least 60 % for new biofuel facilities. Currently, default values of 38% savings in greenhouse gas emissions apply to canola relative to emissions from use of mineral diesel.

Article 17 also states that the greenhouse gas emission saving from the use of biofuels needs to be calculated in accordance with Article 19(1). Article 19(1) outlines that the greenhouse gas emission saving from use of a biofuel has to be calculated using either (a) default values for greenhouse gas emission saving for the biofuel production pathway; or (b) actual values calculated in accordance with a methodology described in Annex V of the RED; or (c) a mix of default and actual values, where disaggregated default values in Annex V may be used for some factors, and actual values, calculated in accordance with the Annex V methodology are used for all other factors.

The European Commission’s Joint Research Center defines the greenhouse gas emission savings for different raw materials and selected production and supply pathways. These results are listed in the RED annex. Greenhouse gas emissions for cultivation, processing, transport, and distribution for different raw materials are used in determining greenhouse gas emission savings.

Actual emissions and life cycle analyses can be used in reporting methodologies so long as they are properly documented in accordance with the RED and default values can always be used without supporting documentation. According to the USDA(2013) the Commission is currently working on approving and publishing more certification schemes than the 13 already available. The Commission considers voluntary certification schemes its preferred means of obtaining certification.

**Implications for Australian Exports of Canola to the EU**

To continue to export non-GM Australian canola to the EU, and receive a price premium, requires that before 2017 the industry must satisfy certain greenhouse gas emission savings. Currently, default values of 38% savings in greenhouse gas emissions apply to canola relative to emissions from use of mineral diesel. From 2017 onwards Australia can no longer rely on this default value if it wishes to continue exporting canola to the EU. The EU has introduced an emission saving threshold of 50% applicable from 2017 onwards.

The combined impact of the recent EU policy decisions regarding the cap on first generation fuel use and emission savings will limit the EU demand for Australian canola used in manufacturing biodiesel. The immediate challenge facing the Australian canola industry is that, if it wishes to continue exporting to the EU and receive any price premia for its non-GM canola, then before 2017 the industry must satisfy the EU reporting requirements that Australian canola provides greenhouse gas emission savings of at least 50 %. To meet the bar of a 50% saving in greenhouse gas emissions a different measurement methodology is required.

So there is a current need for Australia’s canola industry to assess the costs and benefits of using or developing an EU-approved methodology for reporting emission savings associated with Australia’s canola production and its use in EU biodiesel production.

**Failure to develop or apply an EU-approved reporting methodology will restrict or prevent the future use of Australian canola for EU biodiesel production. The issues for discussion include:**

1. **How simple, costly and effective might be the use of an EU-approved methodology for Australian canola production (including emission reporting)?**
2. **What scientific data and auditable processes are available or might need to be developed?**

**Some References and Useful web-sites include:**

USDA (2013) EU-27 Biofuels Annual 2013, GAIN report no NL3034, Foreign Agricultural Service, The Hague, August, 2013.

See <http://bioenergywiki.net/Renewable_Energy_Directive>

See <http://biograce.net/content/biofuelrelatedpolicies/renewable%20energy%20directive>

See <http://www.biofuelstp.eu/legislation.html>

See <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:140:0016:0062:EN:PDF>

See <http://biograce.net/app/webroot/files/file/BioGrace_information_leaflet_EN.pdf>

See <http://biograce.net/img/files/BioGrace_Newsletter_8.pdf>

See <http://ec.europa.eu/energy/renewables/biofuels/sustainability_schemes_en.htm>

See <http://ec.europa.eu/energy/renewables/biofuels/doc/sustainability_schemes/20130527-voluntary_schemes_overview_table_to_publish.pdf>

See <http://europa.eu/rapid/press-release_MEMO-11-522_en.htm?locale=en>

See <http://www.bellona.org/articles/articles_2013/1378459716.96>

See <http://globalrfa.org/advocacy/grfa-letter-to-members-of-the-european-parliament-re-renewable-energy-directive>

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