Sourcing Sustainable Biofuel – a UK / NL Solution

World Biofuel Markets

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Greg Archer

Director, Low Carbon Vehicle Partnership

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For the UK & Netherlands biofuels are principally focussed on delivering sustainable, low-carbon road-transport

Biofuels sustainability assurance is important to:

- ❑ Minimise unintended, negative consequences of biofuels market development
  - Maintain mainstream public and political support
  - To meet corporate CSR commitments and manage reputation risk
- ❑ Validate claims & avoid greenwash
- ❑ Provide the basis for future incentives to supply lower carbon intensity biofuels

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Both the UK & NL are introducing quota schemes to boost supply of sustainable fuels

- UK RTFO requires suppliers of transport fuels to:
  - Sell a given amount of renewable transport fuel each year (for which they will receive certificates); or
  - Purchase certificates from another company; or
  - Pay a “buy-out” price of 22c/l – duty differential of 45c/l retained
- NL scheme commenced January 2007; UK, April 2008
- UK targets:
  - 2008/9 2.5% (by volume)
  - 2009/10 3.7%
  - 2010/11 5%
- Requirements to encourage companies source sustainable fuels with good GHG-savings

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UK and Dutch schemes have many complementary features – and some differences

UK Approach	Cramer Commission Proposal
Biofuels	Biomass
Supplier reporting scheme	National mission – sustainable biomass
Mandatory reporting against sustainability criteria	Mandatory sustainability criteria
GHG saving – reporting	GHG saving – targets
Future incentives for low carbon fuel	Re-evaluate criteria 2010
	Proposals being considered by the NL Government

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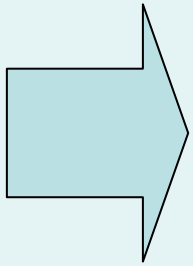
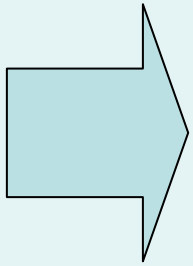
UK reporting proposals provide a pragmatic initial approach

- **Constraints**
  - WTO
  - Data availability
  - Time



- No exclusions of feedstock/fuel
- "Not known" reports permissible
- Focus on major UK supply chains for 2008-9

- **Practical Approach**



- Flexible GHG calculation methodology
- Initial focus on agricultural production – processing initially excluded
- Appropriate exemptions to focus reporting on key issues
- Cost-effective verification

- **Encouragement for better reporting**

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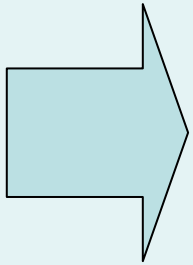

- Evolving requirements
- Realistic reporting criteria
- Oversight of progress/performance by Administrator

UK Companies will report monthly – on fuel batches; and annual – data summaries

Monthly data sheet	Annual report
❑ Information on specific fuel batches	❑ Aggregate (annual) data
❑ Data or discrete choices	❑ Report
❑ No verification of individual data entries	❑ Company systems certified – report independently verified
❑ Confidential – with aggregated reports available from the Administrator	❑ Publicly available
❑ Nil reports permissible	❑ Targets for overall data collection
❑ No information on actions to improve performance and data collection	❑ Evidence of actions to improve performance and data collection

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Illustrative Monthly Sustainability Data Sheet

	Volume of fuel (l)	**Type of fuel**	**Fuel origin**	**% GHG saving**	**Level of calc**	**Land use (2005)**	**Env stnds operating**	**Social stnds operating**
1	50,000	Bioethanol	UK-South West	50%	Tier 2	Set-aside	ACCS	Exempt
2	25,000	Biodiesel RME	UK- East Midlands	65%	Tier 4	Agri-culture	LEAF	Exempt
3	40,000	Biodiesel from Palm oil	Malaysia-Sarwak	60%	Tier 3	Agri-culture	RSPO	SA8000
4	50,000	Biodiesel – unspecified origin	Not known	30%	Tier 1	Not known	Not known	Not known

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There is consensus regarding the use of a meta-standard and the key sustainability criteria for biofuels

	Company Responsibility	National Responsibility
❑ GHG balance	✓	
❑ Land use change	✓	
❑ Biodiversity	✓	
❑ Environmental Protection	✓	
❑ Welfare		✓
❑ Well being (workers rights)	✓	
❑ Competition for food and other materials		✓

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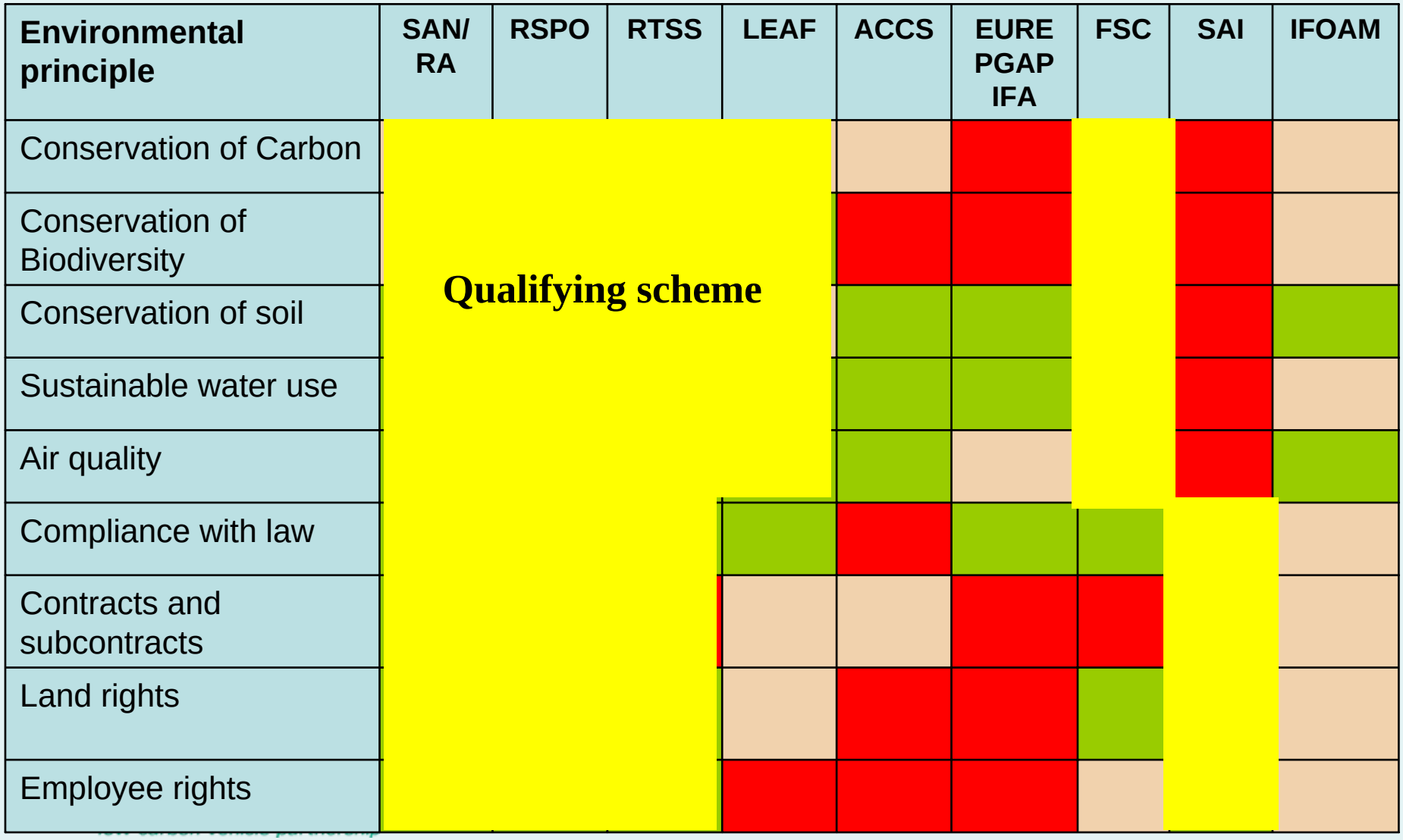
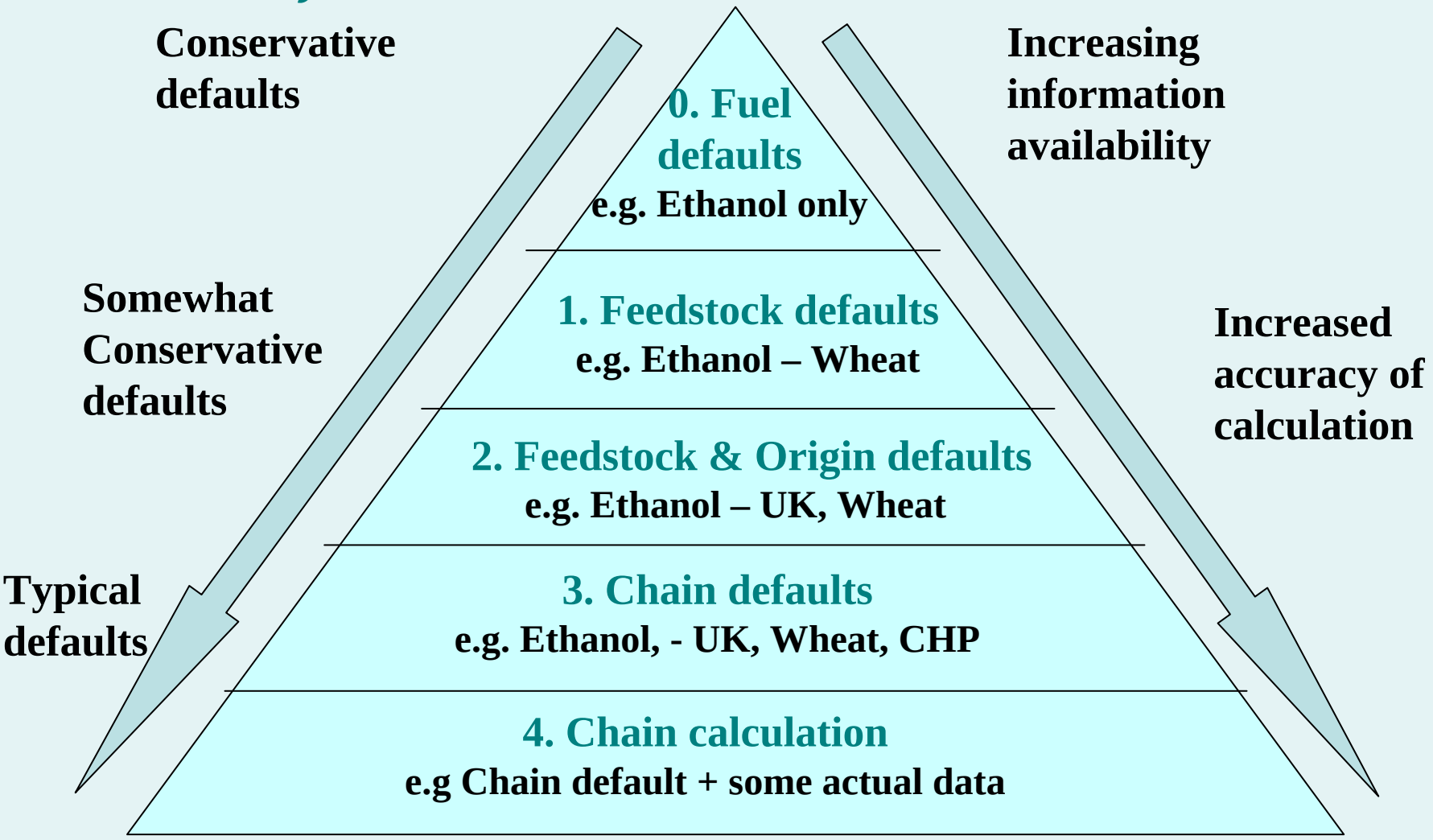
Benchmarking of standard requirements encourages development of agi-env schemes



Default values allow well to wheel carbon intensity calculations for all fuel chains



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Company progress will be measured against a series of performance targets

- % Data capture
- % Tier 3 & 4 GHG calculation
- % Feedstock achieving acceptable sustainability standards
  - Palm oil
  - Rape seed
  - Wheat
  - Other

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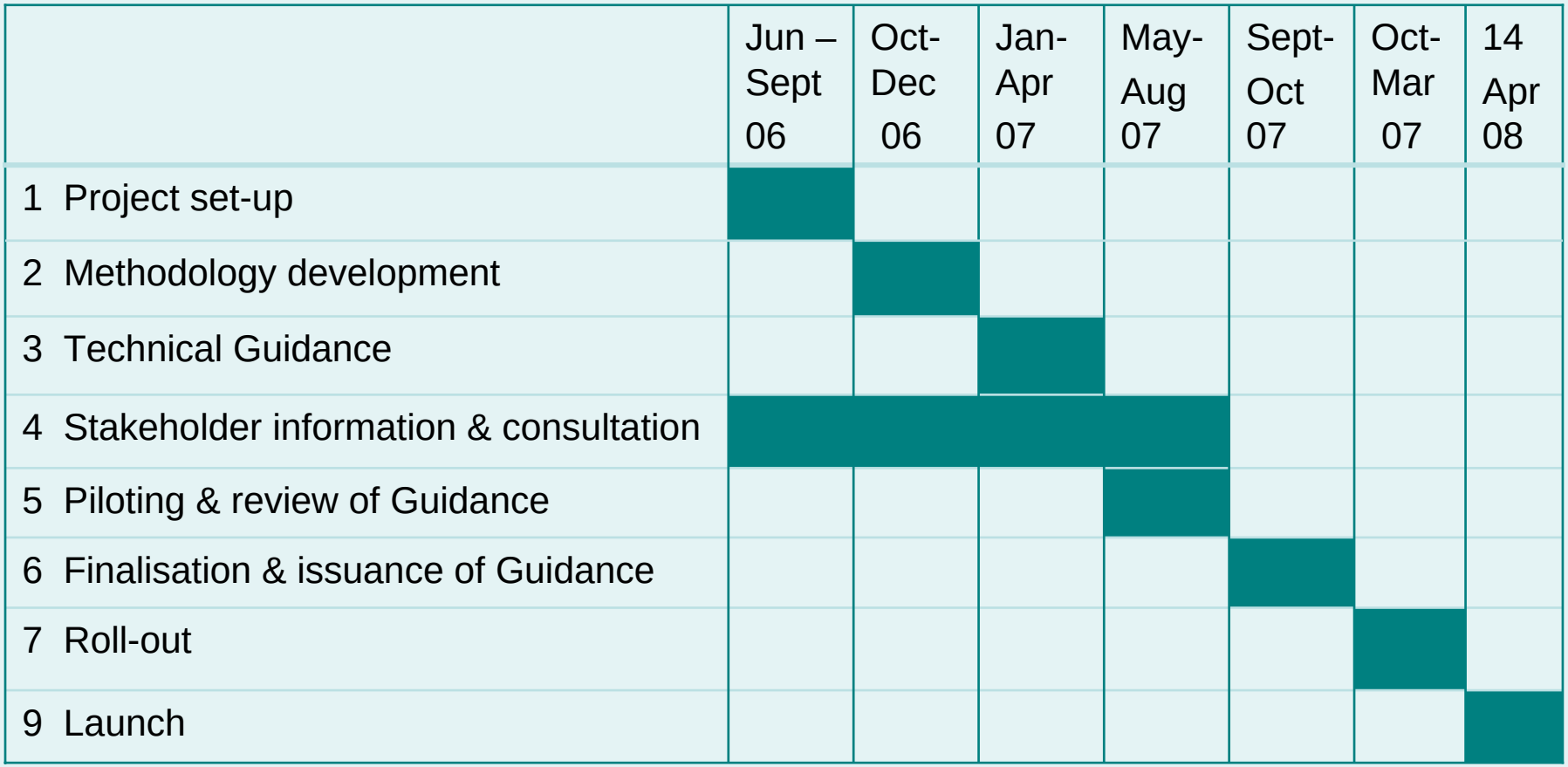
UK Programme



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UK & NI experience highlights a number of key issues for the development of international policy

- To what extent do sustainability criteria impinge upon trade rules?
- How can we most effectively encourage the supply of biofuels with good greenhouse gas savings?
- How can robust verification be achieved cost-effectively?
- What can (and can't) assurance schemes actually deliver?
  - How do we mange leakage effects

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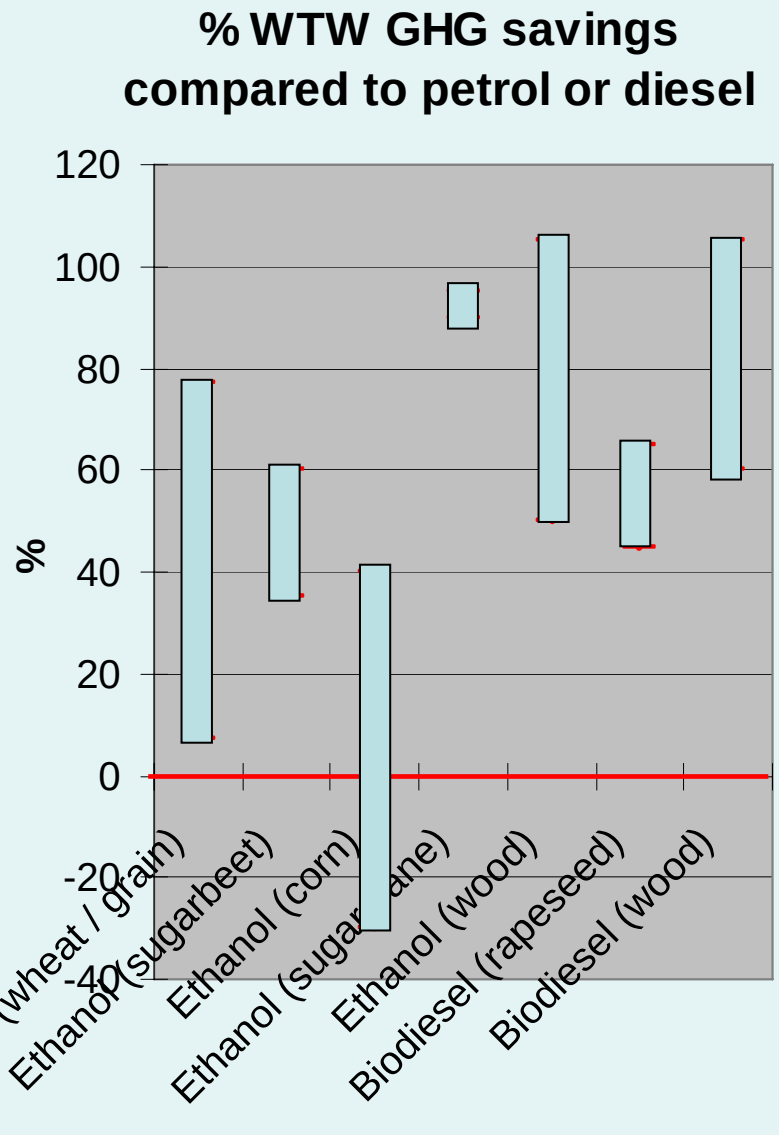
To what extent do sustainability criteria impinge upon trade rules?

- Key trade issues are whether:
  - Biofuels “like-product”
  - Biofuels are agricultural products, environmental products or industrial goods!
  - The scheme objectives and design are appropriate

- To maximise effectiveness and minimise the risk of successful challenge criteria should:
  - Ideally be based upon Internationally agreed standards
  - Also apply to indigenous producers
  - Allow flexibility in how to comply
  - Be based on robust science
- In addition:
  - There should bi and multi-lateral discussions
  - Time should be allowed for adaptation
  - Appropriate due process should be followed

How can we encourage the supply of biofuels with good greenhouse gas savings?

- GHG savings (& production costs) of biofuels vary widely depending upon:
  - Feedstock
  - Cultivation processes
  - Production processes
  - By-product use
- Most feedstock <u>can</u> deliver >50% GHG saving
  - 2nd Generation fuels perform better than most - but not all 1st Generation
- Incentives based upon GHG-savings on a WTW basis should apply to all feedstock – not <u>only</u> 2nd Generation
- UK proposes to reward fuels on the basis of GHG savings in Phase 2 of the RTFO post 2010/11



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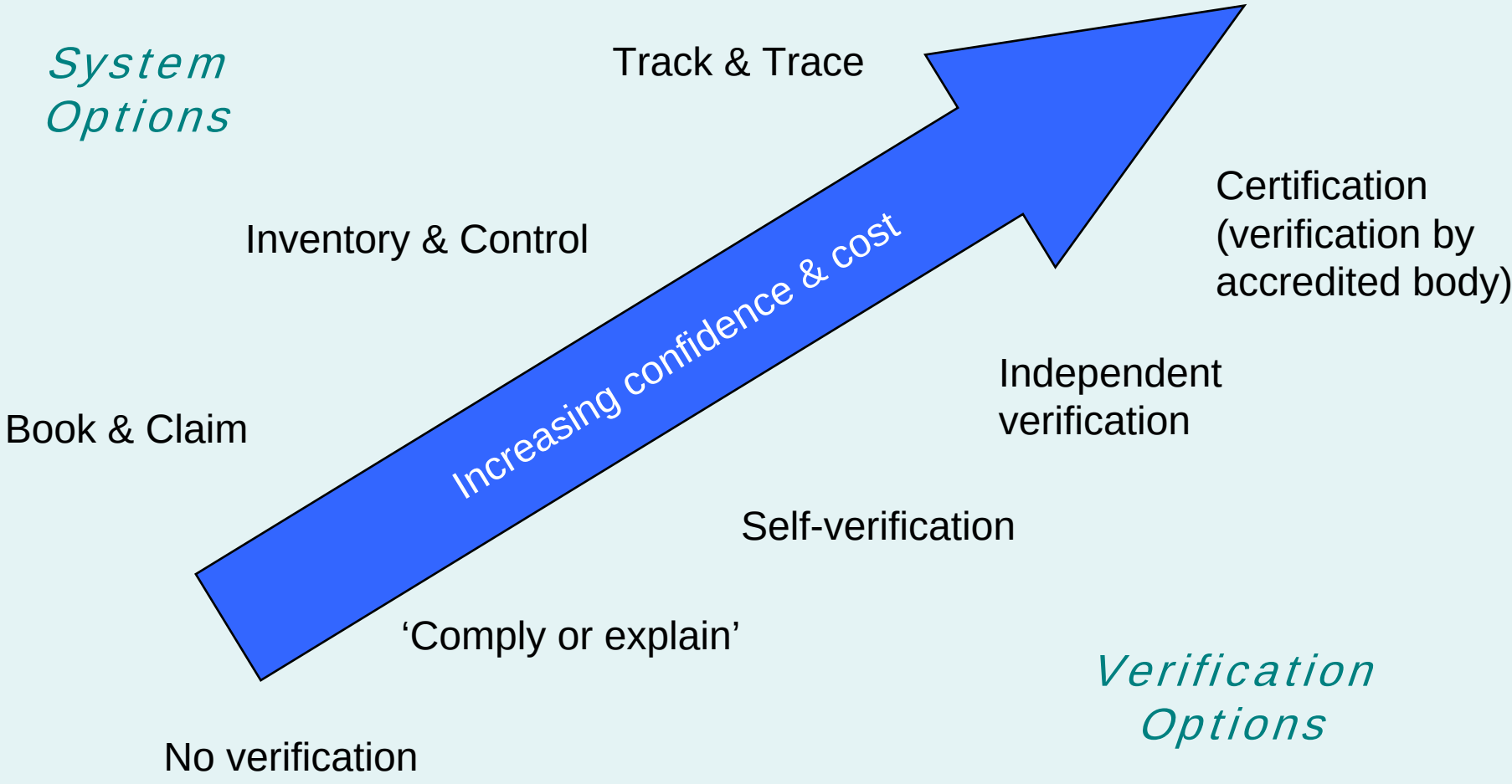
Robust assurance schemes supported by cost-effective verification are an essential part of maintaining public confidence in biofuels



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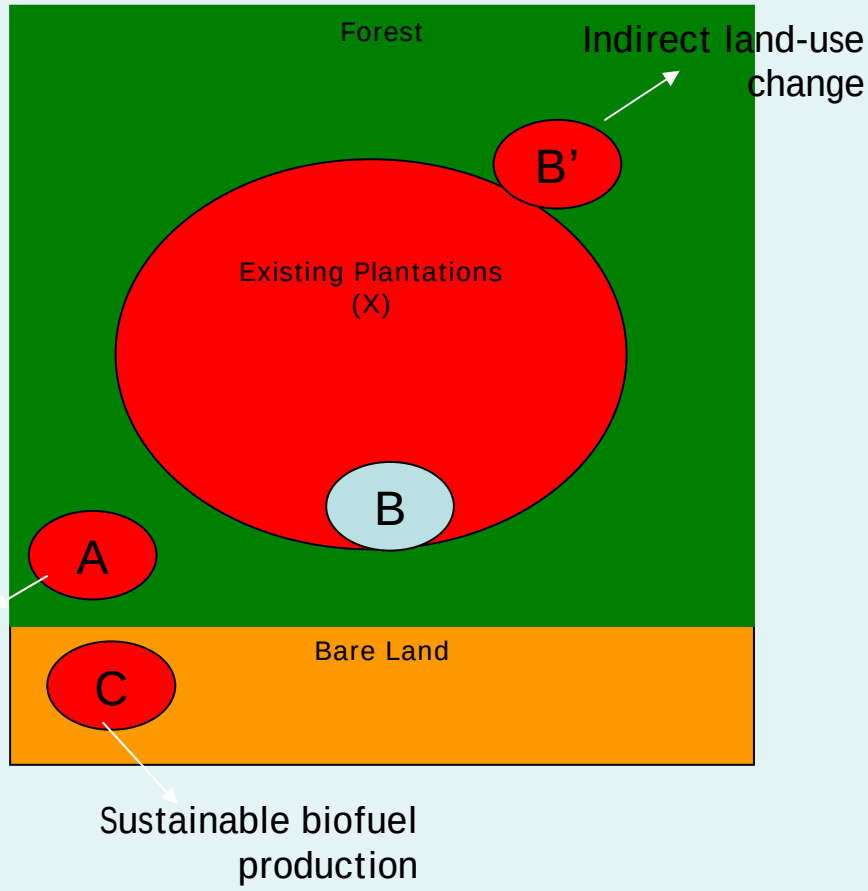
Sustainability assurance schemes do not offer a panacea to mitigate harm …

- Limited influence outside the certified areas
- Unlikely to resolve conflict over resources
- Scheme credibility is highly variable
- Not an effective substitute for good governance
- Bilateral agreements and assistance needed to support countries of the South



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Key messages

- Sustainability assurance should be a key aspect of the development of the international biofuels market
  - Appropriate scheme design is essential to minimise the risk of impinging upon trade rules
  - International robust, but cost-effective verification is essential to maintaining public confidence
  - International schemes should buildi upon existing agri-environment schemes
  - On-going work in the UK & NL demonstrates the feasibility of the approach & provides a model for development
- Incentives that reward biofuels based upon their GHG-saving are essential for climate policy and to create markets for 2nd-Generation fuels
- Assurance schemes only provide a partial solution and must be complement by good governance and bilateral support for countries in the South

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Any Questions?

The Low Carbon Vehicle Partnership

+44 (0)20 7340 2690

secretariat@lowcvp.org.uk

www.lowcvp.org.uk