

## Energy crops and the Common Agricultural Policy

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### Bioenergy: a new opportunity for rural areas

Alternative uses of what the land produces have been at the center of attention since the European Commission presented its Energy Package with ambitious targets for expanding renewable energy sources. The European Council endorsed in March the proposal that the EU should set legally binding targets for 20 % of renewable energy and 10 % of transport biofuels by 2020 in overall EU energy consumption. The energy package was adopted together with a *Communication on policy options for limiting the global climate change to 2° Celsius*, emphasising the integration and interdependence of climate and energy policies.

The targets for renewable energy can be seen as good news for European agriculture: they promise new outlets and a positive development of demand and prices at a time when farmers are increasingly faced with international competition, and with reforms which may put a strain on farm incomes in some areas.

Biomass is the main source (65 %) of renewable energy in the EU, and agriculture and forestry are expected to stay the main contributors to the production of renewable energy, although wind and solar energy are also expected to grow. Bioenergy holds opportunities for European farms and rural areas. It can raise farm income, help diversify rural economies and create new jobs. The impact assessment supporting the Renewable Energy Roadmap estimates that 650 000 additional jobs could be created if the 20 % target was achieved. Most of these would be in rural areas, often in peripheral regions.

Predictions on the development of bioenergy production show a strong increase in the demand for energy crops within the next few years. This will make shifting the production to feedstocks for renewable energy a viable alternative for those farmers who may face difficulties for example due to the reform of the sugar regime and the planned abolition of the intervention purchases for maize.

The Commission will propose before the end of 2007 a new legislative instrument to implement the Roadmap, the mandatory targets and other measures to promote renewable energy in all three sectors of electricity, heating and cooling and transport biofuels.

### The CAP and energy crop production

The Common Agricultural Policy includes three main mechanisms for encouraging farmers to grow energy crops:

- The ongoing process of CAP reform, started in 1992, has reduced price support and helped to increase the competitiveness of EU agricultural production for all possible outlets: food, animal feed, and non-food use including energy crops. With the decoupling of income support farmers can adapt their production to new markets, e.g. to energy demand, without loss of income.
- A specific aid for energy crops of €45 per ha was introduced in 2003. This year the scheme was reviewed and extended to farmers in the 'new' Member States, and to allow the Member States to grant additional national aid of up to 50% of the costs of establishing multi-annual energy crops. Set-aside land continues to be eligible for payments if it is used for non-food production.
- In the new Rural Development policy and Cohesion policy, various support measures are designed to promote the development of bioenergy production including training of farmers and investment support to processing activities. The planting of short rotation coppice or fast growing trees for energy purposes can be supported in Rural Development programmes.

Last year the Commission prepared and the Council endorsed an EU Forest Action Plan which, among other things, promotes the use of forest material as an energy source. This could be particularly important for the use of renewable energy for heating and cooling, electricity and eventually for the production of second generation biofuels.

### Sustainability of renewable energy

As renewable energy is promoted to achieve a more sustainable energy future for Europe, concerns have been raised about the consequences of increased production and use of biomass for energy. Questions are being asked about impacts on the agricultural environment, deforestation and biodiversity, as well as about impacts on prices of food and feed and availability of bio-based materials for other non-energy uses.

The Commission considers it important to ensure that the biomass used to fulfil the renewable energy targets meets minimum standards of sustainability, whether imported or produced domestically. Therefore the Commission intends to include a sustainability scheme in the legislation implementing the proposed 20% target for renewable energy and 10% target for biofuels. The design of the scheme is currently under consideration, with a focus on issues such as the avoidance of biodiversity loss and on the conversion of land with high levels of stored carbon.

### Impacts on agricultural markets

The question "food or fuel" is repeatedly raised in the context of discussions on renewable energy. The question is particularly topical for transport biofuels, which still today mainly use food crops as their raw material. For the preparation of the Renewable Energy Roadmap the Commission analysed the impacts of the increased demand for biofuels on agricultural markets, and concluded that the 10 % target can be achieved without creating major tensions between food and non food production. Because of the low share of costs of agricultural raw materials in food products the overall effect of the 10% target on food prices is small.

The development of the bioenergy market will of course influence the markets of traditional agricultural raw materials, because energy adds an alternative use to food, feed and industrial uses. However, the EU has significant potential for increasing production of biomass for energy, and this will offer to the agricultural sector and rural areas much needed opportunities for diversification and job creation. In the future, the feedstocks both for transport biofuels and for bioenergy in general will be more diverse than today: the development of second generation biofuels will bring agricultural waste such as straw into the selection of raw materials, and the gradual increase of plantations of grasses, short rotation coppice and fast growing trees for energy will widen the sources of woody materials for the production of heat and electricity.

### Home-grown or imported biomass?

European markets interact with world markets, and imports of biomass are likely to make an important contribution to EU renewable energy consumption in 2020. On a conservative assumption, it is possible that 15 % of the biomass used in 2020 could be imported; for transport biofuels the share of imports is likely to be higher, possibly up to one third of biofuels consumed in 2020. The exact share of imports will depend on the results of trade negotiations and on technological development, in particular as regards 2<sup>nd</sup> generation biofuels, in Europe and in the exporting countries.

### Future expectations

The Roadmap for Renewable Energy gives a clear signal to European agriculture and industry, showing a strong commitment to create a larger market for bioenergy. This can be expected to give a boost to investments, technological development and research into bio energy technologies and to spur further interest in biomass production in the farming community. In the development of a longer term vision of the CAP, the best possible integration of energy and climate policy into the policy instruments will be continuously assessed, while eyes will be kept open for the balance between the food, feed and non-food markets.