

The trend worsens: More palm oil for energy, less for food

Drivers burn more than half of palm oil imported into the EU
- 2018 data

June 2019

Summary

Last month the EU labelled the use of palm oil for energy (mainly palm oil diesel) as unsustainable and the bloc is set to phase it out by 2030, starting in 2023. Even though loopholes remain, it was a welcome decision because palm oil drives deforestation, making the cure (biodiesel) worse than the disease (fossil diesel). Due to years of flawed biofuels policy, the EU has been constantly increasing the use of palm oil biodiesel since 2009. And this trend got worse last year.

In 2018, almost two-thirds (65%) of the palm oil imported into the EU was burned as energy. Of that, 53% was used to make biodiesel for cars and trucks and 12% to generate electricity and heating. About a third of all the palm oil consumed in the EU in 2018 was used to produce food, animal feed and other industrial products such as cosmetics. Worryingly, palm oil used for biodiesel grew again last year - by 3% - while the use of palm oil to make food dropped by a considerable 11%. This trend proves that the imported deforestation from palm oil is mainly driven by the EU biofuels policy.

With the lifting of anti-dumping duties on Indonesian palm oil diesel and Argentine soy diesel, imports of refined biodiesel tripled in 2018 compared to 2017 - with palm oil and soy accounting for around 86% of all biodiesel imports. The EU spends 4.2 billion euros on imports of these unsustainable biofuels - as much as what Europeans spend on importing bananas. EU member states now have the possibility to stop this imported deforestation.

Introduction

Adopted in 2009, the Renewable Energy Directive (RED) promotes the use of biofuels by setting a 10% national target for the use of renewable energy in the transport sector by 2020. This law drove a rapid uptake of biofuels, mainly from food crops, with the main increase coming from palm oil. In 2018, the EU adopted a recast of the RED (RED II) for the period 2021 to 2030, which gives member states the option to end the use of crop-based biofuels.

Following the RED II agreement, the EU adopted a delegated act that defines palm oil as an unsustainable fuel. The act means that palm oil diesel shouldn't be counted towards renewable targets by 2030, although exemptions remain. According to the act, palm oil fuels will be frozen at 2019 consumption levels until 2023 and then progressively phased out of the targets by 2030. Based on a Commission study published in 2016¹, palm oil diesel is [three times worse](#) for the climate than fossil diesel, soy based biodiesel two times worse

¹ Valin et al. (2015). The land use change impact of biofuels consumed in the EU. https://ec.europa.eu/energy/sites/ener/files/documents/Final%20Report_GLOBIOM_publication.pdf

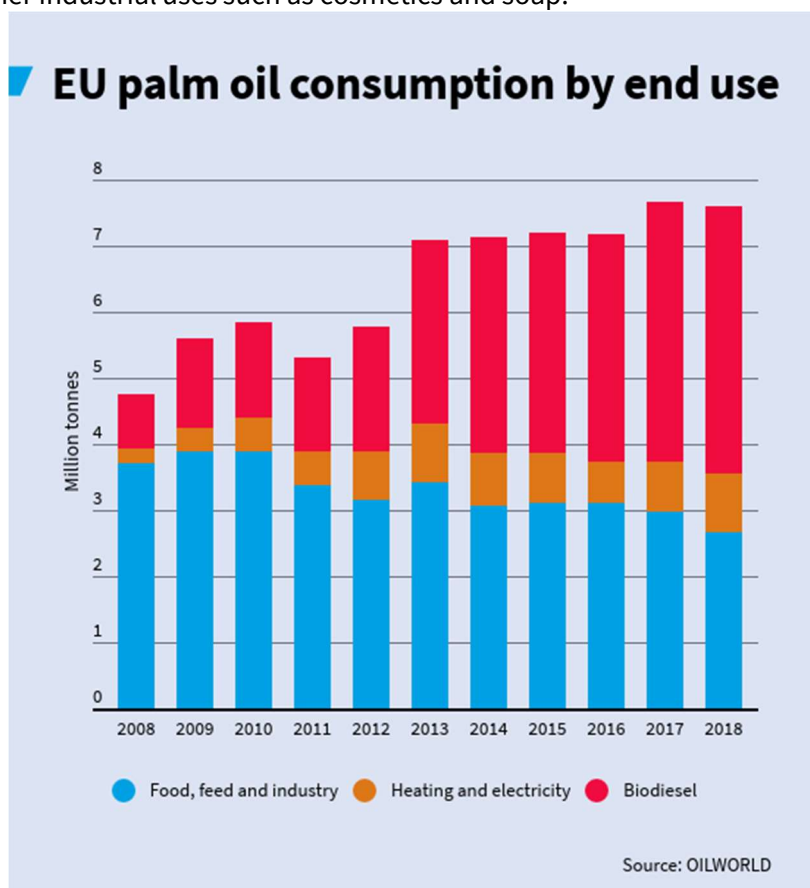
and rapeseed 1.2 times worse². One of the main reasons for such high indirect emissions from palm oil diesel is deforestation and peatland drainage in Southeast Asia: 45% of global palm oil expansion has caused deforestation.³

This briefing provides an update on the EU crop biodiesel market and the use of palm oil for energy, based on the latest definite data for the year 2018. This new information is very relevant in the context of the ongoing national implementation on the Renewable Energy Directive recast (REDII). The 2019 data will be even more important, as 2019 will be the basis of the freeze for the share of palm oil biofuels at national level.

The data used in this report originates from [OILWORLD](#)⁴, the industry's reference publication for vegetable oils markets around the world. Trade data on imports has been collected from Eurostat. It is an update of previous T&E reports on the subject in [2016](#), [2017](#) and [2018](#).

Almost two-thirds of palm oil used in the EU is for energy, mainly diesel

EU total palm oil consumption showed a 1% decrease in 2018 compared to 2017. However, the use for biodiesel (+3%) and energy (+18%) kept growing, while the use for food decreased by 11%. Since 2009, when the Renewable Energy Directive was enacted, palm oil use in biodiesel has grown steadily while the use of palm to make food has decreased - last year is no exception. The EU is now consuming 53% of all imported palm oil for biodiesel in 2018, an all-time high. On top of biodiesel use, around 12% of crude palm oil imports was used for heating and electricity, in generators or as a replacement for heating fuel oil. So a total of 65% of palm oil imports was burned for energy - another record high. Only the remaining third was used for food, animal feed and other industrial uses such as cosmetics and soap.



² <https://www.transportenvironment.org/publications/globiom-basis-biofuel-policy-post-2020>

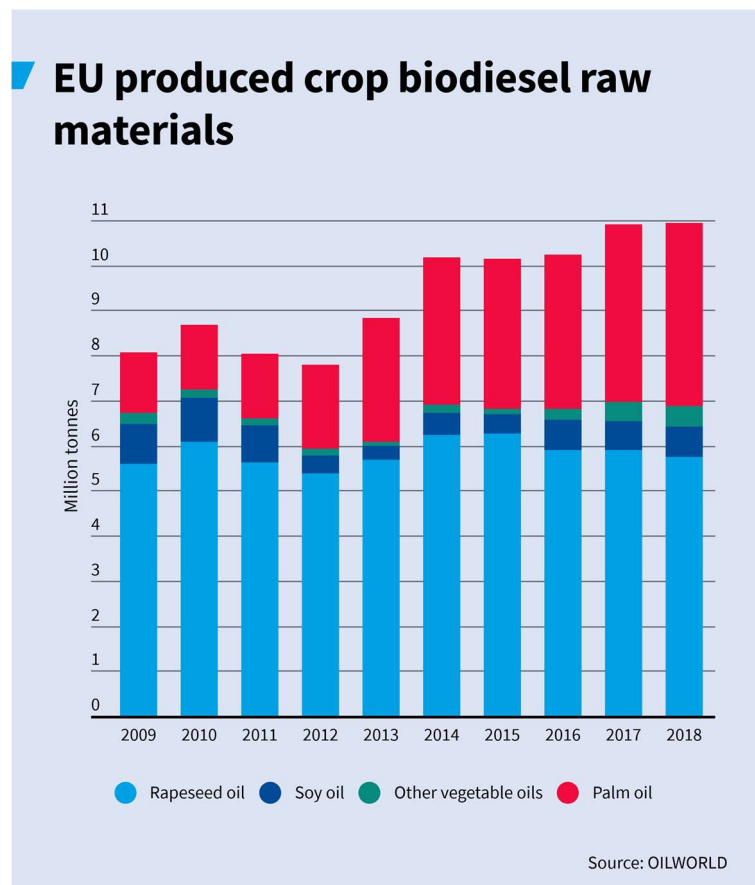
³ European Commission (2019) COM(2019)142 Report on the status of production expansion of relevant food and feed crops worldwide <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1558977620744&uri=CELEX:52019DC0142>

⁴ OILWORLD <https://www.oilworld.biz/t/publications/annual>

Imported palm oil gains market share in EU crop biodiesel production

According to OILWORLD data, palm oil biodiesel production in the EU grew 3% from 2017 to 2018, taking market share from EU's largest EU biodiesel source - rapeseed - which declined by 2%. In 2018, crop biodiesel produced in Europe was composed of 52% rapeseed oil, 37% palm oil, 6% soy oil and 4% sunflower oil. Overall, the EU used over 4 million tonnes of crude palm oil to make biodiesel in 2018. Spain, the top producer, makes 43% of European palm oil biodiesel. Spain, Italy and the Netherlands together made up 82% of the EU palm oil diesel production in 2018.

The production of crop biodiesel was practically stable last year. Palm oil has eaten up some market share from domestic crops, with palm oil filling 81% of the decline in rapeseed biodiesel. This continues the historic trend which started in 2009: palm oil biodiesel production accounted for most of the growth in EU crop biodiesel production, while domestic EU vegetable oil biodiesel remained stable.



Biodiesel imports on the rise

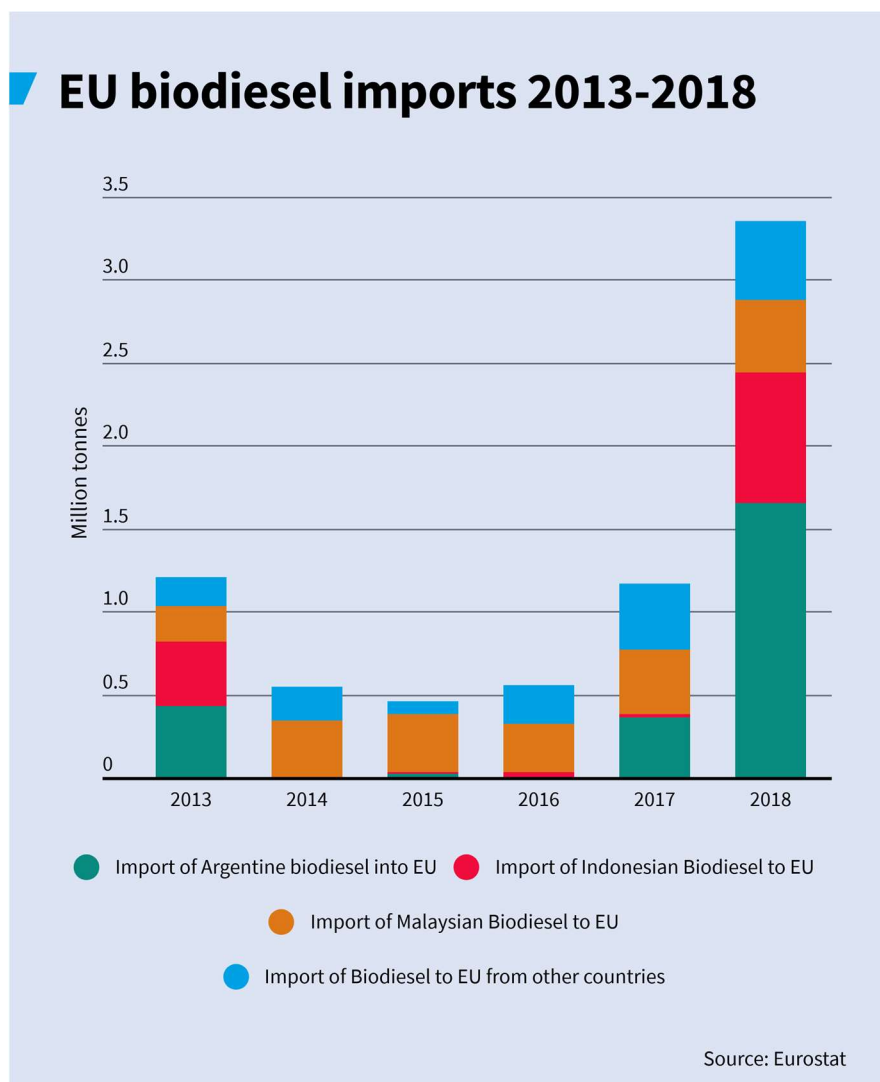
The EU also imports refined biodiesel, with Argentina, Indonesia and Malaysia being the largest exporters to Europe. There was a tripling in biodiesel imports in 2018, with total imported volumes increasing by 2.2Mt to a total of 3.3Mt⁵. A majority of the imports is soy based biodiesel from Argentina (49%) followed by palm oil based biodiesel from Malaysia and Indonesia (totaling 37% of imports).⁶ Thus, unsustainable imports account for at least 86% of EU biodiesel imports. When domestic production and imports are added, the EU

⁵ Eurostat trade data from Easy Comext (database DS-045409 - EU Trade Since 1988 by HS2, 4, 6 and CN8) <http://epp.eurostat.ec.europa.eu/newxtweb/submitdimselect.do>

⁶ Trade data does not specify the raw material for biodiesel, but it is safe to assume Indonesia and Malaysia export mainly palm oil based biodiesel, and Argentina exports biodiesel based on soy oil, because these are the main commodities used to produce biodiesel in these countries.

consumes more than 7 million tonnes of unsustainable biofuels: around 5.3 Mt of palm oil based biofuels, and 2.3Mt of soy based biofuels.

The EU imposed anti-dumping duties on imports of biodiesel from Argentina and Indonesia in 2013, but faced a series of legal challenges at the European Court of Justice and the World Trade Organization. Both bodies ruled against the EU measures and new deals were negotiated. 2018 was the first year under the new deals, and as expected, imports from the two countries have grown from practically nothing in 2016 to 2.4 Mt in 2018.



A costly reliance on unsustainable imports

Last year, the EU spent at least 4.2 billion euros for the imports of unsustainable biodiesel and unsustainable biodiesel feedstocks (crude palm oil and soy oil). To put this unsustainable expenditure in context, the EU spends as much (3.9 billion euros⁷) in importing bananas. The value of the biodiesel imports from Malaysia, Indonesia and Argentina totaled 1.9 billion euros in 2018. The imports of palm oil and soy oil for European biodiesel refineries increased the import bill by a further 2.3 billion euros.⁸ This does not reflect the total cost of imports, as additional cost elements need to be added, such as blending, processing and transport.

⁷ Eurostat trade data from Easy comext (database DS-045409 - EU Trade Since 1988 by HS2, 4, 6 and CN8) HS code 0803 <http://epp.eurostat.ec.europa.eu/newxtweb/submitdimselect.do>

⁸ Calculated based on the share of the commodity ending up in biodiesel (source: Oilworld) and the value of imports of these commodities (source: Eurostat).

What should happen in member states

The EU has made it clear that countries are no longer obliged to use food based biofuels after 2021. Moreover, palm oil biofuels have been labelled unsustainable and will stop counting towards RED targets by 2030, although exemptions remain.

On this basis, we strongly recommend member states to adopt the following policy measures:

- End the unsustainable practice of burn food in transport (called crop biofuels) and decrease their national renewable transport target accordingly, while keeping ambition on advanced fuels such as renewable electricity.
- If countries are not phasing-out all food based biofuels in 2021, they should at least phase out palm oil and all vegetable oil based biofuels at the earliest possible date. All vegetable oils have a substitution link with palm oil, and thus associated deforestation.
- Member states need to monitor carefully the market developments in their country, especially in 2019, as this year will set the maximum contribution of palm oil biofuels before starting the phase-out in 2023. They should also publish all the relevant pieces of information regarding the types and origin of biofuels used in their market.

Further information

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