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## **EU's Palm Oil Challenge: How Should Singapore Respond?**

*By Jefferson Ng*

### **SYNOPSIS**

*Palm oil, a major commodity crop in the region, is likely to be phased out in the EU by 2030. Given the potential regional and transboundary implications, a Singapore-centric perspective can be helpful.*

### **COMMENTARY**

THE EUROPEAN Union (EU) Commission recently classified palm oil as an unsustainable feedstock for biofuels in its Delegated Act of 13 March 2019; if the act is passed, palm oil cannot be counted towards renewable energy targets under its Renewable Energy Directive (RED II). In effect, palm-based biofuels will be gradually phased out from the EU market.

In response, Indonesia, as the world's largest producer of palm oil, mounted a swift multi-level campaign. This included threatening to file a WTO suit, defer the upgrading of ASEAN-EU diplomatic ties, and sending joint ministerial missions to lobby EU leaders.

#### **EU Biofuel Policy: The Context**

The new EU biofuel policy reflects a reversal of its initial optimism regarding the environmental benefits of crop-based biofuels made from cereals, sugar-rich crops, and oil crops. In 2009, the EU drafted the original Renewable Energy Directive (RED) with provisions to promote biofuels. It mandated member states to incorporate a minimum 10% share of biofuels in transport petrol and diesel consumption.

As a result, the use of palm oil in biofuel feedstock grew steadily in Europe. The policy, however, also stimulated expansion of palm oil cultivation. According to the EU

Commission, 45% of the palm oil expansion had taken place in forested areas, and 23% in wetlands and peatlands.

Concerns about sustainability fuelled the recast of RED II in 2018 stipulating that crop-based biofuels can only account for a maximum 7% share of EU's road and rail transport energy consumption. It further stipulates that the EU should:

- Identify high risk biofuels using unsustainable crop feedstock, particularly when the cultivation of these crops causes deforestation and release greenhouse gases;
- impose a cap on these biofuels between 2021 and 2023, and a gradual phase-out of these biofuels by 2030 latest; and
- mandate that advanced biofuels produced from non-crop feedstock such as algae, animal manure, straw, and used cooking oil, should account for 3.5% share of energy consumption by 2030.

### **Impact on Indonesia's Palm Oil Industry**

RED II's policy intent is to promote the transition from crop-based biofuels towards advanced biofuels made from waste and residual feedstock. In the longer-term, the commercialisation of alternative biofuels could constitute a structural risk for the palm oil industry by leading to diminished demand for palm oil.

Europe's negative palm oil campaign had already translated into depressed crude palm oil (CPO) exports. According to Statistics Indonesia (BPS), CPO exports to Netherlands, a major EU palm oil distributor, fell by 39% in March.

The impact of the EU biofuel policy, if fully implemented, is likely to be gradual but protracted. It mainly affects producers of sustainable palm oil, i.e. certified palm oil produced without harming people or the environment. This is because producers exporting to the EU biofuel market are compliant with RED provisions and therefore least likely to cause deforestation. Collectively, these producers exported about 3.9 million tonnes of CPO to the EU as biofuel feedstock in 2017 (roughly 6% of world palm oil output).

If the act is passed, the cap and phase-out policy will, starting from 2021, exacerbate the glut in sustainable palm oil in the market. According to Sime Darby, currently only an estimated 50% of certified sustainable palm oil produced are marketed as sustainable, with the rest sold as regular palm oil — mainly due to insufficient demand.

The loss of the EU market as a major buyer of sustainable palm oil will be a grievous blow. This can only be a missed opportunity for the industry and the region, as sustainable producers offer a realistic compromise between developmental needs and environmental sustainability that the entire industry needs to move towards.

### **ASEAN-EU Relations: Divergent Biofuel Trajectories**

While EU governments are concerned about the negative environmental impact of

“food for fuel” policies, ASEAN governments (Indonesia, Malaysia, Vietnam, Thailand) are intensifying crop-based biofuel production.

Indonesia and Malaysia account for roughly 85% of global palm oil production. They had been the most vocal in protesting the EU biofuel policy, alleging that the EU policy is an adversarial policy to remove palm oil from its markets. They had threatened to review diplomatic ties and take retaliatory trade measures.

An inter-bloc working group to examine the palm oil issue has been setup, and the EU has signalled its readiness to consider ongoing sustainability efforts in Indonesia. Nonetheless, with a strong environmental lobby in the EU and economic livelihoods at stake in the two countries, resolution could be difficult and protracted.

### **How Should Singapore Respond?**

Indonesia could ask ASEAN to adopt a common position against the EU’s biofuel policy as part of its multi-level pressure campaign. This could put Singapore in a tight spot between ASEAN member states and its EU partners.

Although Singapore has no direct interest, it is interested in promoting sustainable development that strikes a balance between palm oil livelihoods on one hand, and palm-related deforestation and trans-boundary haze on the other. Indeed, local green group PM. Haze recently launched an Eco-Cart Chrome plug-in to encourage consumers to switch to sustainable palm oil brands while doing online grocery shopping.

Any reversal of momentum towards sustainable palm oil is a concern given that developments in neighbouring countries can quickly affect Singapore. Singapore should urge EU partners to consider that its policy could end up penalising the most sustainable palm oil producers, while having little to no effect on unsustainable producers.

Additionally, it is not in Singapore’s interest for the palm oil issue to derail broader ASEAN-EU cooperation. Singapore could take a stand, offer its good offices, and promote a pragmatic and amicable resolution of the dispute if the opportunity presents itself.

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