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Ensus UK Limited

The Granary
17a High Street,
Yarm,
TS15 9BW

T: +44 (0)1642 794040

F: +44 (0)1642 794041

W: www.ensusgroup.com

Mr [REDACTED]

DG Agriculture & Rural Development
European Commission
B-1049 Brussels
Belgium

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Dear Mr [REDACTED],

Draft Commission Proposals on Biofuels

We are writing to you in our capacities as the Chairman of Ensus (a European producer of bioethanol) and as both a representative of The Carlyle Group (the major investor in the business) and Chairman of the British Venture Capital Association ("BVCA"), in order to express our deep concern and disappointment with the latest draft proposals from the Commission on biofuels and the impact of indirect land use change ("ILUC"). We believe these proposals contain major flaws and, if enacted, would result in extremely damaging and counterproductive consequences. We have therefore made some specific suggestions that we believe should enable the Commission to achieve its core objectives and yet still preserve an active and sustainable European biofuels industry.

By way of background, when Ensus was first established in 2006, we consciously looked for the best scientifically underpinned business model that would maximise both the carbon footprint savings and have a positive impact on global food production. As a result we chose animal grade (feed) wheat as the primary feedstock (to date all of which has been sourced from within the EU) and an energy efficient integrated refinery approach. This sees a protein rich co-product produced alongside the bioethanol, which substitutes for imported soy, as well as capture of the carbon dioxide produced in the manufacturing process. The "state of the art" facility built has cost Ensus and its partners approximately 500 million Euros and has since been replicated by many of the more recent major investments by other leading European producers. The greenhouse gas savings of the bioethanol produced by Ensus, when compared to conventional fossil fuels, are in excess of 70% by established Commission methodologies.

In relation to the draft proposals on biofuels and the impact of ILUC, the Commission's proposals are unsatisfactory in several regards:

1. **ILUC factors.** The current science around ILUC is weak and unlikely to improve quickly, as every situation is different with regard to soils (history and type), climate and, of course, the biofuel pathway chosen. As a result, precise quantification is challenging and the application of ill-founded averages may result in lost opportunities for carbon reduction. However, whilst the quantitative science is unsound, the direction of the impact of ILUC for each pathway is now better understood. Taking the Ensus approach – low grade wheat to bioethanol plus a protein rich concentrate – less land is needed overall as the high productivity of European feed wheat comfortably compensates for the low productivity of protein rich crops imported into the EU. The resulting "ILUC factor" should therefore be positive, as this enhances rather than negatively impacts on the carbon footprint of this pathway. However, the IFPRI methodology applied in the draft proposals ignores the significant protein concentration of co-products in this case and so the relevant ILUC factor within the Commission proposal is inaccurate. The Ensus position is supported by published peer reviewed papers from several different experts, and even included in a chapter of the latest FAO handbook. For reference, another consequence of the Ensus approach is that

land can be released for food production given the soy requirement displaced, meaning this pathway does not bring food and fuel into conflict but actually enhances both.

2. **Proposed cap of 5% on "first generation" production.** The EU ethanol industry, which is now invested with world leading assets at huge expense (several billion Euros) and supporting thousands of jobs, has been seriously weakened by difficult external market conditions and the dumping of tax subsidised, tariff avoiding ethanol by the US industry. The imposition of a 5% cap will result in surplus capacity and low or even negative margins (as experienced in the recent past) and will leave the industry fighting for its survival and certainly incapable of investment in new assets or technologies that would otherwise support energy security and create jobs. Needless to say, investor confidence in renewables, which is already low, will be damaged further should the current proposals be implemented – and the opportunity to expand a leading sustainable industry in the EU to meet the 2020 targets will have been lost.
3. **Promotion of "second generation" production.** There appears to be an idealised view that "second generation" technologies will emerge quite separately – based on agricultural wastes and from land incapable of food production. In practice, for bioethanol, when the technologies to cope with cellulose and hemi-cellulose become available they will require the "first generation" assets and technologies for production. Indeed, the first logical extension/transition is to utilise the cellulose and hemi-cellulose in the wheat in "first generation" plants – improving and enriching the protein co-product, increasing ethanol yield, increasing food production, and driving the carbon footprint savings up to and above 100%. Ensus and other leading EU bioethanol producers are active in developing these technologies. A specific target for "second generation" to provide explicit encouragement could be helpful for promoting this. Damaging the existing industry to the extent it is unable to invest would not.
4. **Differentiation in the Renewable Energy Directive ("RED").** Despite our belief that a negative ILUC factor for biofuels from an EU grain pathway is not appropriate, we are pleased to see that on a relative basis the Commission's work does identify such bioethanol as far superior to other biofuels, hence able to contribute substantially in the here and now to decarbonisation of the transport sector at a relatively low cost compared to alternatives. Whilst the Commission's proposals do therefore go some way to differentiate between "good" and "bad" biofuels, the lack of "hard" differentiation in the RED and the uncertainty around both the timing and ability to deliver the Fuel Quality Directive ("FQD"), where hard differentiation is included, is very concerning. We believe tangible differentiation through the specific inclusion of ILUC factors in the RED should be incorporated (rather than purely an obligation on Member States to report on these), together with being maintained in the FQD. This should also serve to provide further confidence as to the merits of a higher contribution from "first generation" material that qualifies against the RED criteria.

In light of the above, we agree with the Commission's proposal that the ILUC factors should be reviewed as the science evolves. As that takes place we believe that "advanced biofuels", which can be shown to contribute positively to both carbon savings and food security (such as the bioethanol produced from the Ensus model), should be recognised as such and should not then be limited from making that positive contribution. Critically, therefore, we request that the Commission proposals are amended as follows:

1. The proposed cap is amended such that "first generation" materials that satisfy the current criteria are able to contribute up to 8% of the overall 10% target for renewable transport fuels, with the remaining 2% carved-out for "second generation" materials and "advanced biofuels" (which can be shown to make the positive contribution noted above);

2. "Second generation" biofuels should be clearly defined as made either from ligno- and/or hemi-cellulosic feedstocks or from wastes and residues that have no viable economic alternative and hence cannot themselves contribute to risk of indirect land-use change; and
3. Clear differentiation between different biofuels should be included in the RED through formal recognition of the ILUC factors the Commission has proposed (not just through Member State reporting obligations), and the position in the FQD should be maintained (as currently drafted).

It should be noted that we do not believe that the domestic European biofuels industry requires specific economic subsidies. What it does require are that the mandates which have been set – both with respect to inclusion targets for renewable transport fuels and reduction targets for greenhouse gases – are implemented by Member States in a timely fashion and then adhered to.

We hope that this feedback from both a major producer and a major investor in the European bioethanol industry is positively received, and would be delighted to discuss our views and the current situation with you in more detail, either by telephone (see numbers below) or in Brussels at your convenience.

Yours sincerely,

[Redacted signature]

[Redacted signature]

[Redacted]
[Redacted]
+44 [Redacted]
[Redacted]@green-park.biz

[Redacted]
[Redacted]
Managing Director of The Carlyle Group
Chairman of the British Venture Capital
Association
+44 [Redacted]
[Redacted]@carlyle.com

cc. Other officials engaged with biofuels.