



International Centre for Trade  
and Sustainable Development

# **Policies and Rules for a Sustainable Biofuel Trade**

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# Prospects for Trade in Biofuel

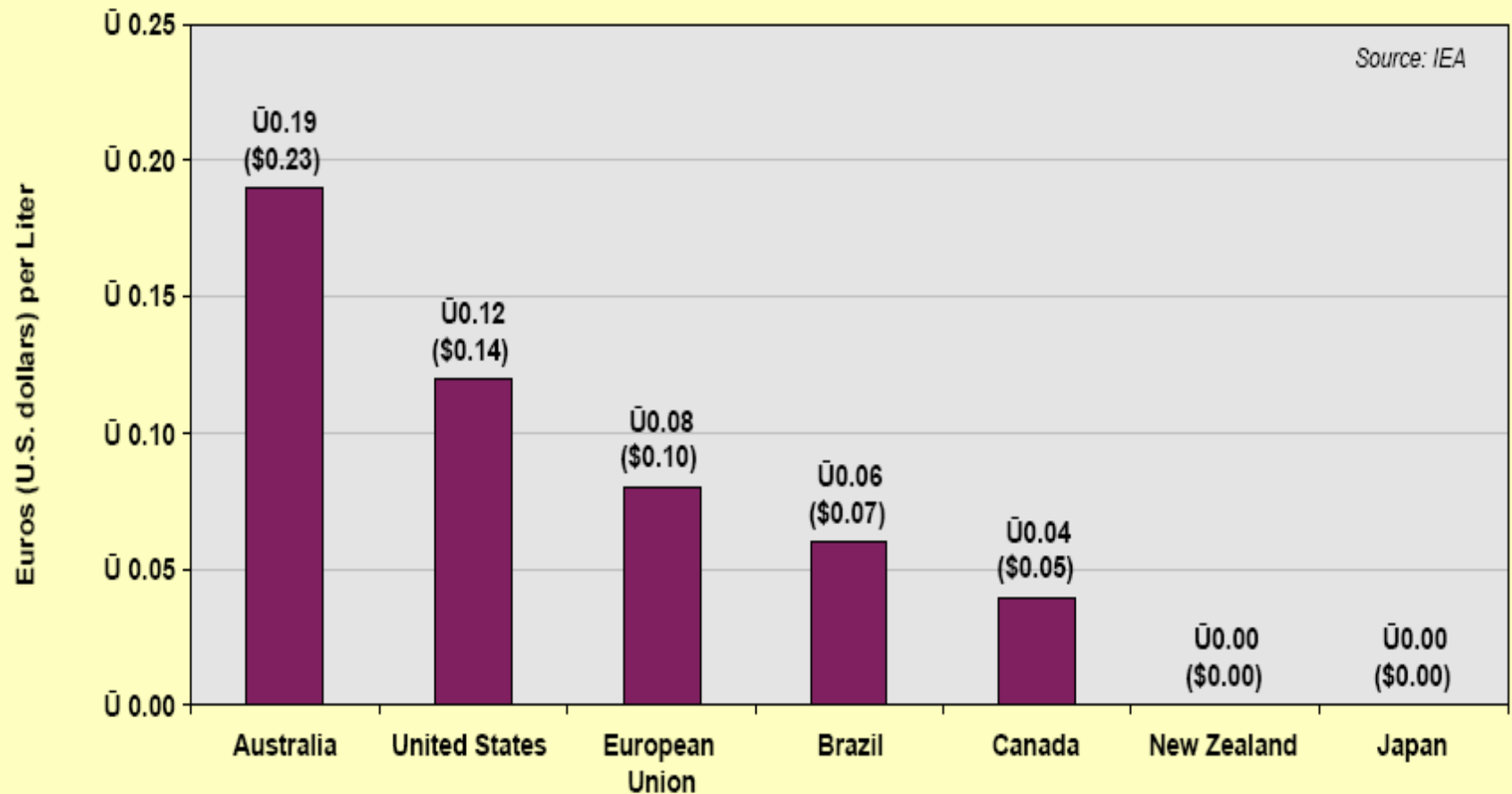
- ❖ Demand for biofuels is increasing in developed countries. But limitations to domestic production (land availability and cost effectiveness)
- ❖ DC have comparative advantage (more suitable land, longer growing season and lower labour costs)
- ❖ So far trade in biofuels for transport use is minimal (Brazil + intra EU) but likely to grow as demand increases.

# Trade Rules and Sustainable Biofuel Trade

- ❖ Three key areas where WTO rules are relevant to remove trade distortions and promote sustainable production and trade:
  - ❖ Tariff barriers
  - ❖ Subsidies
  - ❖ Standards including environmental and social sustainability criteria

# **1.Enhancing Market Access**

# Removing Tariff Barriers



Ethanol Import Duties in Selected Countries, 2004

# The Negotiation Context

- ❖ Ethanol and biodiesel fall under different product classification at the WTO:
  - ❖ Ethanol is considered an agricultural product
  - ❖ Biodiesel is classified as a chemical (industrial good)
  - ❖ Such a distinction bears crucial implications in terms of the WTO rules and disciplines that apply to ethanol or biodiesel with respect to tariffs
- ❖ In Doha negotiations tariff reduction formula envisaged are much more ambitious in industrial goods than in agricultural good

# The Negotiation Context

- HS system at six digit makes no distinction between fuel ethanol and ethanol for other purposes
- 1980, US introduced a « secondary » import tariff of 50% per gallon on top of existing ethanol tariff. Clearly WTO not compatible
- GSP: US excludes ethanol. EU include biofuels

# Enhancing Opportunities in Liberalisation of Environmental Goods and Services

- ❖ Negotiations on Environmental Goods and Services: Doha Declaration Para 31 (iii):
  - ❖ *reduction or, as appropriate, elimination of tariff and non-tariff barriers to environmental goods and services.*
- ❖ Biofuels as environmentally-preferable products (EPPs) - products “that cause significantly less environmental harm at some stage of their life cycle than alternative products serving the same purpose” (UNCTAD, 1995).
- ❖ Proposal by India and Brazil but not included in the different lists proposed by developed countries
- ❖ Developed countries want to exclude agricultural products from EGS negotiations (but even Biodiesel not included in their list)



## **2. Disciplining Biofuels Subsidies**

# Subsidy Reform

- ❖ Without subsidy reform, the potential for biofuels to provide new social, environmental and economic opportunities to the developing countries will not be realised.
- ❖ WTO rules: SCM agreement and specific additional disciplines for agricultural subsidies in AoA (amber box, blue box and green box)
- ❖ But not all subsidies are negative not illegal: need for differentiation

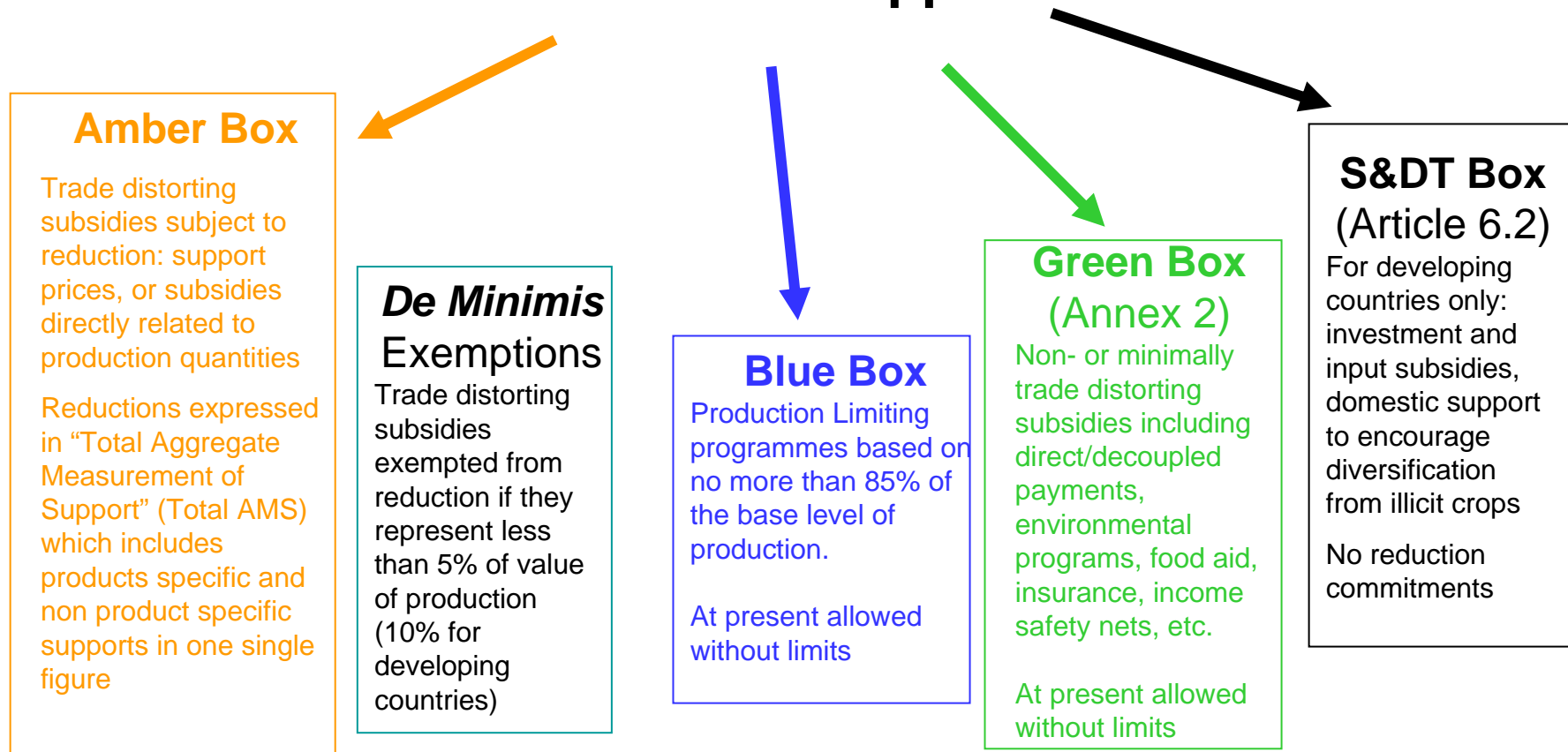
# Already Large Trade Distorting Agricultural Subsidies

- ❖ Agricultural subsidies main factor of disagreement that led to the collapse of the Doha Round.
- ❖ 21 developed countries spent nearly US\$250 billion in 2003 on subsidies - total for the world being more than US\$300 billion (WTO, 2006).
- ❖ The problem with subsidies to crops used as feedstock in the production of biofuels.
- ❖ Tremendous social, environmental and livelihood implications in the poorest countries.

# Agricultural Domestic Support in the WTO



## Domestic Support



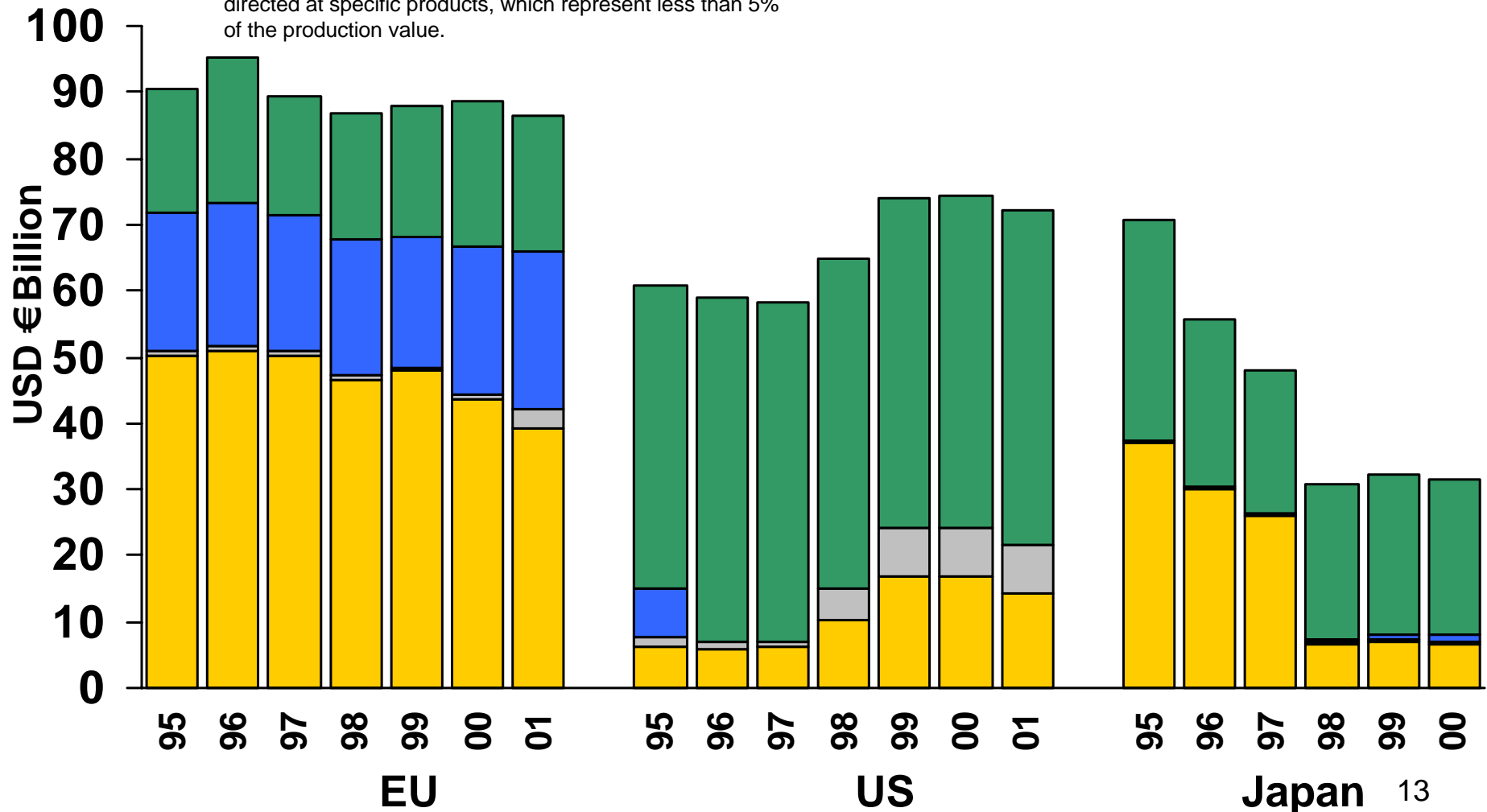
# TOTAL TRADE-DISTORTING DOMESTIC SUPPORT: EU, US AND JAPAN

**AMS:** trade-distorting price or income guarantee payments linked to current levels of production, whether or not directed at specific products. They are subject to binding and reduction commitments.

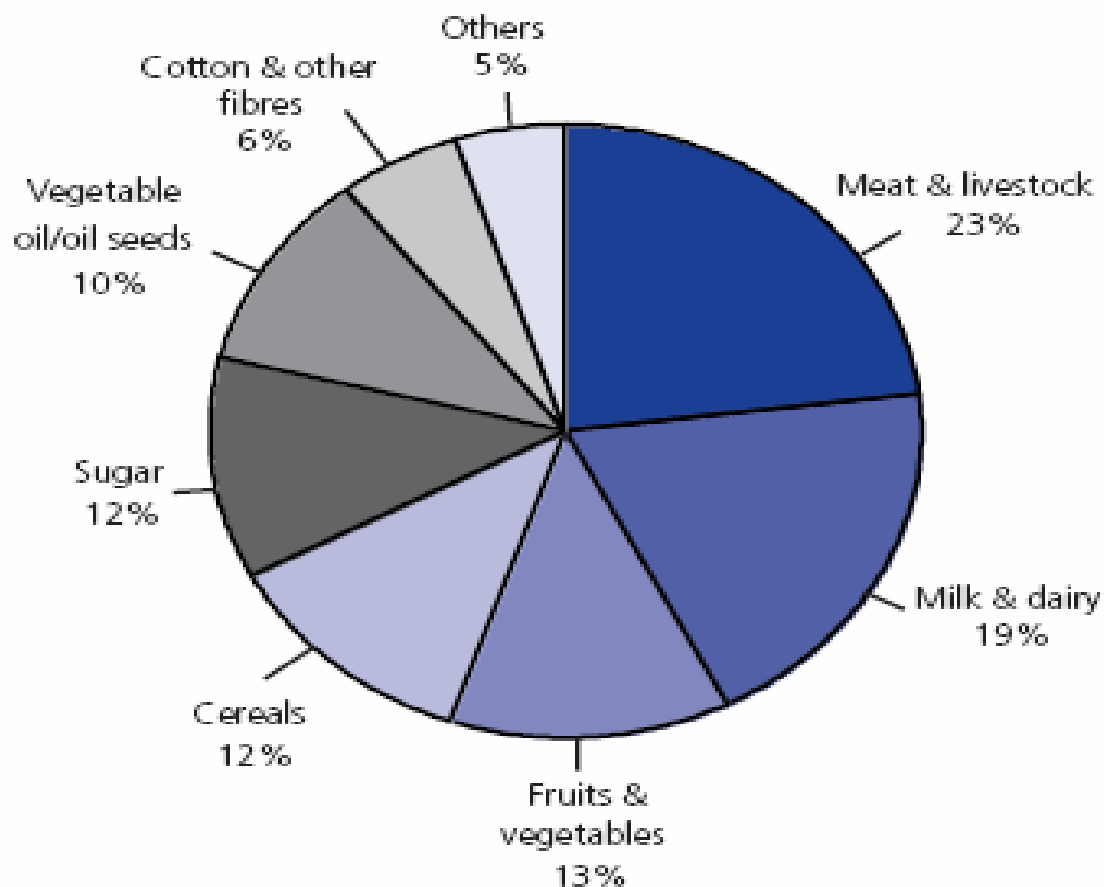
**De Minimis:** trade-distorting payments, whether or not directed at specific products, which represent less than 5% of the production value.

**Blue Box:** trade-distorting compensatory payments linked to production-limiting programs. They are exempt from binding and reduction commitments.

**Green Box:** payments that cause minimal or no distortion, exempt from binding/reduction commitments

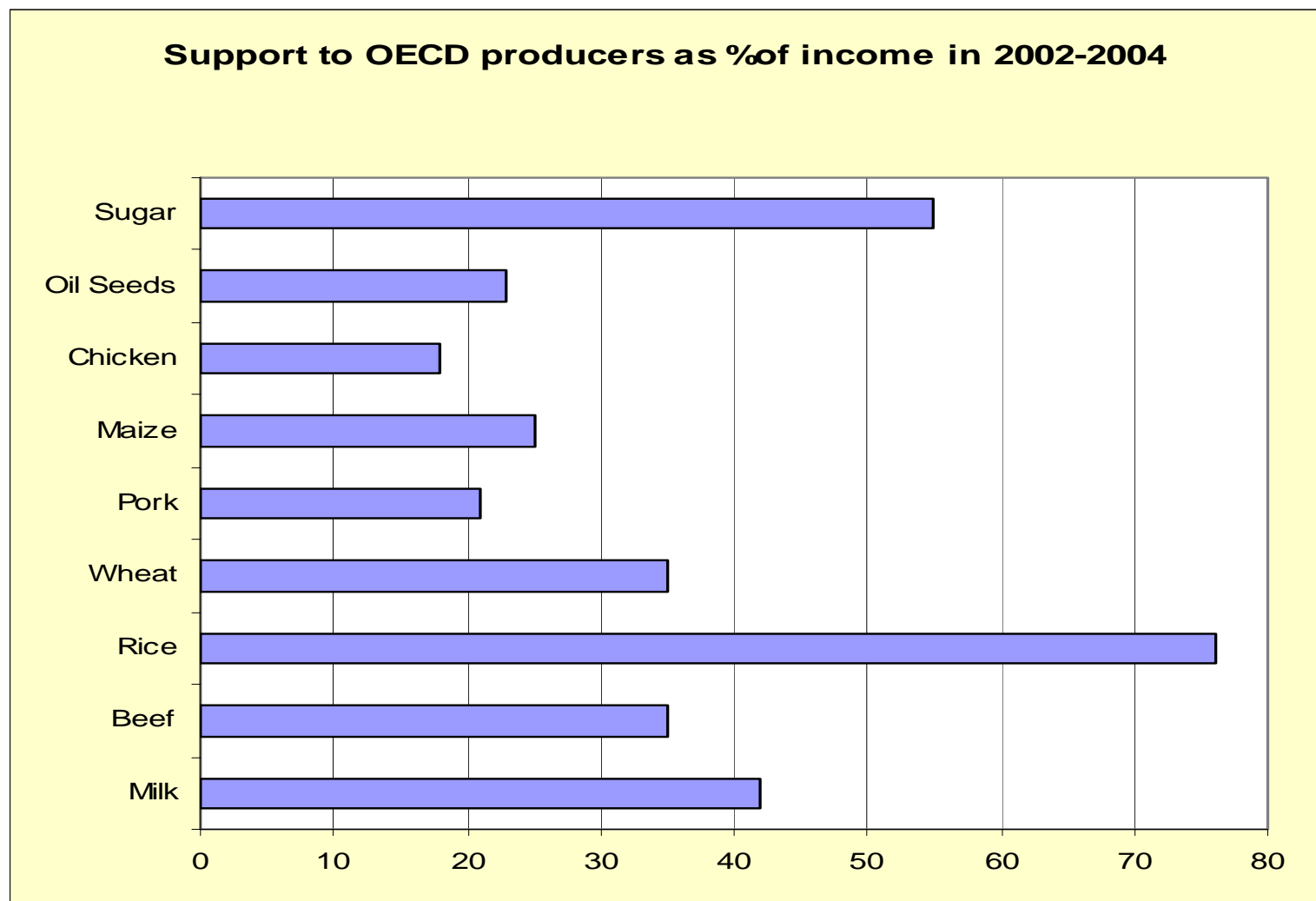


# Distribution of Product-specific AMS (the most trade-distorting measures)



Source: WTO Secretariat.

# Support to OECD producers as % of income in 2002-2004



# And Now Bioenergy Specific Subsidies

- ❖ US federal subsidy is 54 cents per gallon of ethanol, an estimated 30 to 45% of production costs. In addition fourteen states provide their own subsidies for ethanol production (Perry, 2006 in Alavi for ICTSD 2006).
- ❖ In the EU, inefficient sugar producers are eligible to receive EU funds under the sugar reform plan to convert sugar factories into ethanol plants that use either sugar beet or grain as inputs (Brough, 2005 in Alavi for ICTSD 2006).
- ❖ **A bleak picture: *Very few countries have enough raw materials available at present to produce biofuels that could compete on price with fossil fuels without government subsidies*** (OECD-FAO 2006).



# Examples of Different Subsidies Schemes and their Compatibility with WTO Rules

- **Subsidies on production of biofuels:**
  - E.g. volumetric tax credit (US) or 36 cents/liter (UK): SCM agreement applies. (financial contribution, benefit, specific, damage). Could be challenged. Env. tax exemption might be more compatible
- **Consumer subsidy:**
  - e.g. Gasoline tax exemption to purchasers (EU): SCM, likely to be compatible
- **Subsidies on feedstock for use as biofuels inputs:**
  - AoA applies, difficult to justify under Green Box subsidies as linked to production and would hardly qualify as environmental subsidies.

### **3. Building Environmental and Social Sustainability Criteria into Trade Regimes**

# Will Certification and standards help Achieve Sustainable Production and Trade?

- ❖ Non compulsory standards including labeling not problematic.
- ❖ Mandatory standards or tax concessions linked to conditions based on environmental sustainability:
  - ❖ Not problematic if related to end use or environmental impact in importing countries and if non discriminatory, based on objective, transparent criteria
  - ❖ More uncertainty if related to overall life cycle analysis. (Could be justified since carbon emissions is global environmental problem)
  - ❖ More problematic if related to methods of production in exporting country (deforestation, use of fertilisers, habitat protection). Netherlands and Germany. Issues of objectivity and judgement of domestic policies

# Will Certification help Achieve Sustainable Production and Trade?

- ❖ Experience with forest and agricultural certification not very conclusive
- ❖ Making certification simple, fair and cost effective
- ❖ Making the WTO Agreement on Technical Barriers to Trade work for bioenergy
- ❖ Managing the multiplicity and complexity of private standards



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## Thank you

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