BIOFUEL AND BIOMASS SUBSIDIES IN THE US, EU AND BRAZIL: TOWARDS A TRANSPARENT SYSTEM OF NOTIFICATION

Tim Josling, David Blandford and Jane Earley
Motivation

• With increased trade in biofuels, conflicts over biofuel subsidies are likely to rise
• Key links with agricultural support through biomass subsidies reinforce WTO involvement
• Biofuels subsidies are an important aspect of the broader debate on energy policy
• Information on extent of biomass and biofuels subsidies is fragmented and not easy to interpret
• However, an NGO (GSI) has shown that such calculations are possible for major countries

Josling, Blandford and Earley, IPC Session
Sept 2010
WTO involvement

• WTO has rules on subsidies and agricultural support and requirements for notification
• Subsidies (including agricultural subsidies) subject to Agreement on Subsidies and Countervailing Measures.
• Agricultural support covered in addition by Agreement on Agriculture and schedules of reduction
• Notifications have so far been inadequate to assess incidence and impact of biofuel and biomass subsidies

Josling, Blandford and Earley, IPC Session Sept 2010
WTO rules on subsidies

• SCM rules define subsidies as those measures that
  – Entail a financial contribution (as defined within agreement) made by a public body
  – Constitute income or price support (as in Article XVI: GATT 94)
  – Confer a benefit

• *Specific* Subsidies benefit a firm or sector
  – Some specific subsidies are prohibited (e.g. non-agricultural export subsidies)
  – All others are actionable through DSM or countervail actions

• Biofuels policies such as tax credits for blending ethanol are presumably specific and actionable subsidies
Notification to the SCM Committee

• Requirement to notify in enough detail that other members can calculate trade impacts (Article 25, ASCM)
• US notified $2.7 billion in biofuel subsidies to SCM for 2006. GSI estimate of $5.9 to $7.2 billion includes States and non-notified programs
• EU notified $54 million in 2006 for biofuel subsidies (cf. $5.2 billion GSI estimate)
• Brazil notified no biofuel subsidies to SCM Committee
Notification to Agriculture Committee

• Agricultural (domestic) support includes any measures in favor of agricultural producers
• Measures can operate at processing level but support calculated for “basic” agricultural products
• Does not need to involve payments: can include “market price support”
• Treatment depends on to which “Box” the measure conforms
• Biomass subsidies presumably are “product specific” and would appear to fall under PS-AMS for purposes of notification
• But “support” given as a result of subsidies to biofuel producers and blenders poses a problem: much of the benefit may “leak” to other countries that produce the biomass product
Notification to Agriculture Committee

- Notification to monitor compliance with scheduled reductions
- Ethanol classified as an agricultural product, but not biodiesel (though it was in 1994)
- US notified $150 for bioenergy projects in agriculture
- No attempt to include the support for corn prices from ethanol mandates and tax credits (perhaps $3 billion)
- EU notified the Energy Crop Scheme payments (now discontinued)
- Brazil notified some credit subsidies that could have helped sugar producers, but these were small amounts
Transparency

• Lack of consistency in notifications could usefully be addressed (even though subsidies are not always the same as support)
• Could also have more coordination between agricultural and SCM notifications: more detail on agricultural support is found in SCM notifications
• Could the two Committees jointly consider biofuel and biomass subsidies?
• Useful to agree on classification of biomass: ensure that biodiesel is included as an agricultural product
Magnitude

- Biofuel subsidies are notified to WTO (to two Committees) and also discussed by OECD and IEA.
- It could be useful to combine this data and produce an annual review of the type and level of subsidies for biofuels.
- Could also be addressed in Trade Policy Reviews.
- This could be undertaken as a part of a report on all energy subsidies, and perhaps include market access conditions for energy products.

Josling, Blandford and Earley, IPC Session Sept 2010
Conclusion

• A strong case can be made for more cohesion in monitoring biofuel and biomass subsidies

• This could start by improving the notifications of such subsidies to the SCM and Agriculture Committees (perhaps the GSI template)

• It would help to rationalize the classification of different forms of agricultural biomass
Conclusion

• Institutional cooperation could be helpful
• WTO, OECD and IEA collecting data on various aspects biofuel subsidies: might consider a joint report on an annual basis
• Would be even more useful if combined with reports on fossil fuel subsidies
• Could lay the groundwork for action in the future in limiting such subsidies to the extent that they prove an impediment to more rational and efficient trade patterns in energy-related products
Thanks for your attention

Contact e-mail address
josling@stanford.edu