Classifying Biofuel Subsidies: Farm Bill and WTO Considerations  
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With biofuels increasingly becoming part of the conversation about alternative sources of energy, the issue of subsidies for the biofuels industry is pushing the discussion from energy and agriculture, to trade policy. On Tuesday, September 14th, Wilson Center on the Hill and the Program on America and the Global Economy (PAGE) co-sponsored an event with The International Food & Agricultural Trade Policy Council (IPC) to explore biofuels subsidies and their related trade implications.

The debate about biofuels subsidies currently centers on whether or not they should be classified as agricultural subsidies. As part of the Doha round of trade negotiations, some products that are used in biofuels production are considered “energy products” and others are considered “agricultural products.” The discrepancy is due to a lack of transparency and communication between member-states and the World Trade Organization. Because different rules apply to the different classifications, the issue will have ever more important implications throughout the developed and developing world as the market for biofuels increases.

After introductions from Kent Hughes, Director of PAGE, Charlotte Hedebrand, of IPC opened up with remarks about the importance of international trade and the growth of biofuels production. She provided some context by noting that “biofuel production has mushroomed tremendously over the last few years.” This mushrooming, according to Hedebrand, has created more demand for agricultural feed stocks, such as corn and sugar cane, highlighting the question as to whether or not biofuels subsidies should also be considered agricultural subsidies.

Next to speak was Randy Schnepf, economist with the Congressional Research Service, who focused on three issues. First, biofuels policy (and its subsidies) - not presently limited by WTO rules- distorts food, feed, land and environment markets. Second, most biofuels support today is non-agricultural, and given the indirect agriculture economic ramifications like soaring feedstock prices, how, if at all, should biofuels subsidies be included in farm policy? Last, that biofuels’ economic effects are beginning to change and replace traditional farm programs through their price-support mechanism. Schnepf noted that policy makers should fully consider all three questions when pursuing a biofuels subsidy strategy moving forward.

Schnepf noted that that “assuming all tax credits today are extended… by the year 2022 we would be spending $27 billion just on biofuel tax credits alone, and from 2009-2022 we would spend $200 billion on these [agricultural] tax credits.” The bottom line, he concluded, was that “biofuel subsidies are starting to substitute for farm program payments,” resulting in higher commodity prices and a decrease in projected WTO notifications.

Following Schnepf was Tim Josling, Senior Fellow and Professor Emeritus at the Institute for International Studies at Stanford University. Professor Josling began by emphasizing that “one should look at bio(fuels) subsidies as a part of a broader debate on energy policy…Biofuels are
not the only fuels that receive subsidies.” Josling argued that metrics are currently lacking and “we’re very short on information on the extent of the incidence of these biofuel subsidies, not just in this country but in other countries…in fact, one cannot make reasonable calculations based on government figures.” Josling proposed several solutions including a more cohesive monitoring structure that could help implement some uniformity, and greater institutional cooperation.

Schnepf was blunt when describing how difficult it would be to implement biofuel usage on a large scale. When asked whether he thought the US would shift to biodiesel in the near future as Europe has, Schnepf responded that even with a dollar-per-gallon subsidy, the labor and material costs used to make biodiesel “is just not competitive with petroleum diesel.” Both Schnepf and Josling agreed nonetheless that biofuels are an important source of alternative energy for the future of American economic prosperity, and noted that there are difficult decisions to be made to ensure America remains competitive and productive in the future.

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