

**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

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

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

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