



In Depth . . .

Report Calls for Review of WTO Rules Governing Energy Trade

The increased interest in biofuels around the globe has until recently focused attention on domestic production of these renewable transportation fuels as a substitute for petroleum-based fuels. But, according to a recent report, as demand for biofuels increases, so does the likelihood that a robust international trade in biofuels will develop.

The report, prepared jointly by the International Food & Agricultural Trade Policy Council and an organization called the Renewable Energy and International Law, recommends that in advance of increased world energy trade, the WTO needs to review its rules to see how, and if, they apply to biofuels. As the report notes, energy trade generally has not been a focus of WTO law and policy, in part because until recently a number of key players in energy markets — such as petroleum-producer Saudi Arabia — have not been WTO members.

The report sets forth a range of WTO issues that could inform a debate on how international trade rules apply to the biofuels sector as such:

- How should biofuels be classified in the WTO: as agricultural, industrial, or environmental goods? What are the implications of each for WTO members' obligations?
- How should subsidies to promote the production or consumption of biofuels be considered from the perspective of existing or any planned WTO rules? How should possible "cross-subsidization" (the increase in by-products as a result of subsidies to biofuel production or consumption) be evaluated? and
- What is the consistency of domestic regulations and standards — for example, mandates requiring the use of biofuels, fuel content requirements, or environmental sustainability import criteria — with WTO rules on international regulations and technical barriers to trade?

Producing fuel from agricultural crops already has raised questions about the likely effects the new technology will have on the supply of food and land. What has received less attention is the shift that would result in the location of feedstock and fuel production.

The report points out that the most ideal land for sugarcane and oil palm trees — currently the most energy efficient biofuel feedstocks — is located primarily in developing countries in tropical and sub-tropical climates. In addition to having land more suitable to the

efficient production of biofuel feedstocks, these countries also have longer growing seasons and lower labor costs than OECD countries.

As biofuel demand increases and as developing countries identify a market in which they may have a comparative advantage, international trade in biofuels may become more commonplace. "While developing countries thus arguably have a comparative advantage, there are also concerns that increased production of feedstocks and biofuels in these countries might contribute to increased food insecurity and prove environmentally disruptive," says the report.

The authors say that such trade in biofuels would enhance efficiency by directing production to the most cost-effective locations, and use of the highest yielding and lowest cost feedstocks. As a result, and to the extent that the biofuels industry will require and receive continuing government support measures, "it is vital that they incur the least distortion of market signals and choices and thus allow the most cost efficient and environmentally sound biofuels to thrive in the market place," says the report.

However, as the paper points out, "Uncertainty over biofuels classification, and the range of government measures to protect domestic biofuel production — from tax incentives, high tariffs and subsidies — risk stunting growth in trade even as the global demand for biofuels is rising."