

WTO must set rules for future biofuel trade-report

27 Oct 2006 13:00:17 GMT

Reuters

By Missy Ryan

WASHINGTON, Oct 27 (Reuters) - A booming world trade in biofuels may be around the corner, a new report said on Friday, so the World Trade Organization and others must act now to regulate rules and standards that are "all over the map."

"Everybody's wildly producing biofuels, especially in developed countries," said Charlotte Hebebrand, president of the International Food and Agricultural Trade Policy Council, which released the report on WTO rules and fuels like ethanol.

But with rules for things such as import standards varying from country to country, Hebebrand said the WTO, the World Customs Organization and national governments must work together to make sure that future biofuel trade runs smoothly.

"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," the report said.

One big question is whether the WTO will consider biofuels, made by processing crops including corn and sugar cane, as agricultural, industrial or even environmental goods, noted the group, whose members represent current and former government officials and agricultural industry executives.

Classification could affect, for example, how the fuels are treated in trade talks and whether governments would be permitted to pay export subsidies to biofuel producers.

The council suggested one idea for solving the problem would be introduce a new biofuel classification.

Also needed, the report said, are world standards on biofuel content and rules on subsidies for biofuel crops. If no decisive action is taken, Hebebrand said governments could end up "cross-subsidizing" biofuel by-products like glycerol.

BIOFUEL ON THE RISE

The report comes at a time when renewable motor fuels are being touted as a potential fix for worries about finite supplies of costly fossil fuels.

"Countries want to be more energy secure; they want to rely less on unstable regimes for oil; they want to create another market for their farmers," Hebebrand said.

Brazil and the United States are the world's top producers of ethanol, with respective production at 4.22 billion gallons and 4.26 billion gallons in 2005.

The European Union is a big producer of biofuels from rapeseed, sunflower seeds and soybeans. Total biofuel output there was 768 million gallons in 2004.

While global production is growing, international trade of biofuels remains small.

But that could change if biofuel producers in the developed world cannot keep up with domestic demand, or if it becomes more cost-effective to grow supply crops in poor countries with lower labor costs and longer growing seasons.

"What you're seeing across the globe is more countries looking at how do they grow their domestic fuels industry," said Matt Hartwig, a spokesman for the Renewable Fuels Association.

It remains difficult to predict when biofuels will garner a serious world trade. Some believe countries like Indonesia, Thailand, and Argentina hold the greatest near-term production potential.

There are some concerns in the United States that growing ethanol demand will squeeze corn supplies. Now, a fifth of the U.S. corn crop is used for ethanol.