



# EU SUPPORT FOR BIOENERGY AND BIOFUELS, ENVIRONMENTAL STABILITY CRITERIA, AND TRADE POLICY

By Alan Swinbank

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## EXECUTIVE SUMMARY

**Although undoubtedly influenced by concerns about security of energy supplies, and a wish to find alternative market outlets for European farmers, the European Union (EU)'s policy for biofuels is associated closely with its more generic policies to promote bioenergy, which in legislative terms is embedded in its policy on renewable energy and part of its strategy to reduce greenhouse gas emissions.**

The EU's strategy, and its implementation by the Member States, has been evolving for a number of years; but its current ambition is that by 2020 some 20 percent of its primary energy supplies should come from renewable resources (including bioenergy) and that, in each Member State, renewables (largely biofuels) should provide 10 percent of energy use for transport. It is up to the Member States to deliver on these obligations in the framework of EU rules.

Various investment grants are also available to further encourage the uptake of these new technologies. For example, the EU's rural development regulation, part of its Common Agricultural Policy (CAP), provides for various forms of on-farm and rural investment

Imports of bioethanol face a high import tariff, but most bioethanol is imported at a zero rate from developing countries through super-GSP (Generalized System of Preferences), Everything but Arms, and

(what was) the Cotonou Convention. Apart from imports of biodiesel from the United States, imports of vegetable oils supply the biodiesel market. Because the EU offers financial incentives to use biofuels that are not matched by similar incentives in supplier countries, the EU's imports of biofuels (and of vegetable oils for blending as biodiesel) are probably larger than they would be otherwise.

The United Kingdom (UK)'s policies to support the use of biofuels would not appear to be problematic under the World Trade Organization (WTO) Agreement on Subsidies and Countervailing Measures (the SCM Agreement). They would not appear to be prohibited subsidies, because they are not paid on exports; they are paid on imports. Nor would they appear to be actionable: the alleged "harm" they impose on other countries is to raise world food commodity prices (not an issue addressed by the SCM Agreement) rather than cause harm to overseas suppliers. Under the Agreement on Agriculture (AoA), they potentially would be declarable as amber box policies, but the impact would be slight. Biodiesel is not covered by this agreement, there is no market price support within the meaning of the agreement, and the financial benefit conferred on suppliers of material for bioethanol production is limited (and difficult to determine). However, if the EU were to declare all of its taxpayer and consumer-funded biofuel subsidies as amber box support, then this would form a substantial proportion of its aggregate

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measurement of support (AMS) entitlement, which would be problematic following a successful outcome to the Doha Round.

The real problem in the WTO is the EU's plan to impose environmental sustainability criteria on biofuels if they are to contribute to renewables mandates and benefit from EU support programs.

The EU's plans for environmental sustainability criteria could be challenged in the WTO, and they will be defended successfully only if the EU can show that they are non-discriminatory, scientifically based, and that they have been imposed only after meaningful negotiations with the EU's main suppliers to develop international standards.

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