



US TRADE POLICIES ON BIOFUELS AND SUSTAINABLE DEVELOPMENT

By Jane Earley

GLOBAL PLATFORM ON CLIMATE CHANGE, TRADE & SUSTAINABLE ENERGY

June 2009

EXECUTIVE SUMMARY

Biofuel in the United States (US) is primarily ethanol produced from corn. Although new legislation in the form of a recent Farm Bill and an ambitious biofuels mandate looks toward increased production of other forms of bioenergy, such as cellulosic biofuels, there is still little commercial production of these other forms.

Without significant policy shifts, production of cellulosic biofuels on a commercial scale is unlikely to occur as rapidly as envisioned by the Renewable Fuels mandate in the face of current incentives to produce ethanol from corn. Without such shifts, increasing corn ethanol production will continue to contribute to increased stress on land and water resources, loss of wildlife habitat and conservation dedicated land, and increased levels of hypoxia in water bodies from nitrate run-off. It will also continue to contribute to increased food and animal feed prices, low carry-over stocks and food price volatility.

Although imports of ethanol from Brazil and Caribbean Basin Initiative (CBI) countries have increased dramatically, they are still very small relative to demand. The tariffs on ethanol and the blender credits for both ethanol and biodiesel combined, hurt ethanol imports from Brazil and other countries, limit cellulosic development in favor of present technology, and subsidize the blending of biodiesel for foreign as well as domestic producers.

Clearly, a new look at US biofuel policy should include reduction of current restraints on trade to encourage increased imports of sustainably produced biofuels, and revision of the biofuel mandate to further encourage cellulosic production and cap production of corn ethanol. There may be a renewed opportunity to accomplish this in an administrative framework, despite the US Environmental Protection Agency's recent denial of a request to waive portions of the Renewable Fuel Standard (RFS) to minimize price increases to animal feed and food. Policy revision should also look at increasing production of other sustainably produced biofuels and renewable energy sources, including biofuel imports from developing country recipients of non-reciprocal trade preferences.

The World Trade Organization (WTO) rules could address many aspects of this situation. It is likely that the ethanol tariff and the biodiesel blender credit will become important trade issues. The range and level of domestic support provided throughout the value chain, from feedstock production to consumer use, should also be considered in light of the disciplines provided in the WTO Agreement on Agriculture (AoA) and the Agreement on Subsidies and Countervailing Measures (SCM). The Doha Development Round could provide an important incentive to further clarify biofuel tariff nomenclature, reduce tariffs and non-tariff barriers in agricultural and industrial trade, and include biofuel provisions in environmental goods and services negotiations.

US TRADE POLICIES ON BIOFUELS AND SUSTAINABLE DEVELOPMENT

By Jane Earley

US biofuel policymakers should also link to international efforts to develop sustainability standards for biofuels. These will be critical in both a climate change and a resource conservation context. Although these would not avoid problems in current WTO jurisprudence, international standards would help to provide a basis for the lifecycle analysis of biofuels required by US laws and could also provide a neutral platform for assessment of biofuels from both domestic and imported sources, including preferential trade arrangement beneficiaries.

“ US biofuel policymakers should also link to international efforts to develop sustainability standards for biofuels. These will be critical in both a climate change and a resource conservation context. ”

Jane Earley is an Independent Consultant at Earley & White Consulting Group LL. She was a USTR Negotiator and in the most recent past, CEO of the Marine Stewardship Council, and a Policy Advisor to WWF US.

ICTSD Programme on Agricultural Trade and Sustainable Development, Issue Paper No. 18, June 2009.

The full study is available online at <http://ictsd.org/climate-change/agriculture-and-biofuels/>



ISSN: 1816-6970