EU Support for Biofuels and Bionenergy, ‘Environmental Sustainability’ Criteria, and Trade Policy

Alan Swinbank
My ICTSD Report:

• Introduction
• The EU Policy Framework
• UK Implementation
• CAP Policy Measures
• Import Arrangements, and Trade
• Interaction with WTO Provisions
• Conclusions and Recommendations
EU Terminology:

- **Biofuel**: liquid or gaseous fuel for transport produced from biomass
- **Bioliquid**: liquid fuel for energy purposes other than for transport, including electricity and heating and cooling, produced from biomass
Bioenergy drivers:

- **Commercial**
  - Oil/energy prices
  - Support mechanisms
- **Policy**
  - Energy security
  - Global warming, and reduction of greenhouse gases
  - Farm support/rural development
    - Evades WTO disciplines on agricultural support?
The EU’s Policy Framework

• Has been evolving for some years, but now embedded in the Climate Change Package
  – Includes a new Directive on the promotion of the use of energy from renewable resources
    • e.g. biomass, hydro, solar, geothermal
  – Revisions to Emissions Trading, and more

• Common Agricultural Policy

• Import Duties
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20s in the Climate Change Package

• 20% reduction in EU’s greenhouse gas emissions by 2020, compared to a 1990 base

• Renewables should provide 20% of EU energy supplies by 2020 (up from 8.5% in 2005)
  – UK: from 1.3% in 2005 to 15%

• Renewables should provide 10% of transport energy requirements in all Member States by 2020
And sustainability criteria for biofuels and bioliquids:

• Greenhouse gas emission savings of at least 35%, rising to 50% in 2017
• Not derived from land with high biodiversity value
• Not derived from land with high carbon stock (e.g. wetlands or forest)
• European Parliament had wanted ‘land rights of local communities’, ‘fair remuneration of all workers’, etc.
• WTO compatibility?
To be implemented by the individual Member States

- They have to notify their *national renewable energy action plans* to the European Commission by 30 June 2010 (Article 4)
- And translate the *Directive* into national legislation by 5 December 2010 (Article 27)
- But Member States already have programmes in place
The CAP and bioenergy:

- Little *direct* Pillar 1 support for bioenergy
  - Non-food crops were allowed on set-aside
  - An Energy Crops scheme (€45/hectare)
    - *But both abolished in the Health Check*
  - Sugar in excess of quota can be used for bioenergy

- Pillar 2 support, enhanced (post-2010) by the Health Check, including:
  - Capital grants for anaerobic digesters, etc.
  - Planting grants for *Miscanthus*, coppice
Import tariffs

• Ethanol: €10.2 /hl (≈ 45%)
  – But duty-free under Everything but Arms and Cotonou
• Biodiesel: 6.5% under Code 3824.9099
  – But a classic case of tariff escalation as crude palm oil is duty free; crude soybean oil pays 3.2%, etc.
  – Imports of B99 from the USA
UK Incentives

• Recap of UK’s obligations by 2020:
  – 16% reduction in greenhouse gases compared to 2005 in sectors not covered by Emissions Trading
  – 15% share for renewables (1.3% in 2005)

• Investment grants, Emissions Trading, etc

• Renewables Obligation (RO) on ‘designated electricity suppliers’

• Renewable Transport Fuel Obligation (RTFO) for road transport
Renewables Obligation (1/2)

• In place since 2002: obligation in 2008/09 was 9.1% of electricity supplies, and rising

• Electricity suppliers demonstrate compliance by redeeming ROCs (Renewables Obligation Certificates) with Ofgem, or by buying-out their obligation

• ROCs are issued when renewable electricity is generated
Renewables Obligation (2/2)

• Until April 2009, 1 ROC for every MWh (megawatt hour) generated; but from April a banding system (e.g. for anaerobic digestion, 2 ROCs/MWh).
  – 2009/10 obligation: 9.5 ROCs/MWh

• Buy-out price 2008/09 = £35.76/MWh; but Ofgem recycles the revenues

• ROCs sold at auction in April 2009 at £52.65/MWh
Fuel Taxation and the RTFO (1/2)

• Road-fuel tax rebate on biofuels of 20p/litre
  – Full rate of 54.19 from 1 April
  – To be abolished in 2010

• Being replaced by the Renewable Transport Fuel Obligation (RTFO)
  – 2008/09: 2.5% of an obligated company’s aggregate fuel sales
  – 2009/10: 3.25%
Fuel Taxation and the RTFO (2/2)

• RTFO Certificates are issued when road-fuel duty is paid on biofuels
  – Partly because of drafting errors in the implementing legislation, the obligation will be met in 2008/09 with some certificates carried forward to 2009/10

• Otherwise buy-out the obligation
  – Current buy-out price is 15p/litre: will rise to at least 30p/litre when the duty rebate ends
RTFO, 15 April 2008-14 March 2009

Source: Renewable Fuels Agency
RTFO, 15 April 2008 - 14 March 2009, *bioethanol* by main origins

- **Brazil**: 81%
- **UK**: 18%
- **Other**: 1%
RTFO, 15 April 2008 - 14 March 2009, biodiesel by main origins

- USA: 36%
- Germany: 13%
- Argentina: 7%
- Indonesia: 3%
- Canada: 2%
- Malaysia: 6%
- UK: 6%
- Other: 3%
- Unknown: 24%
A trade policy dilemma

• Developing countries no doubt have a comparative advantage in producing biofuels
  – Thus tariff reductions are to be welcomed
• But EU support encourages the use of biofuels in the EU, and therefore their export from other jurisdictions that do not offer the same level of support
  – Potentially encouraging them to import fossil fuels, to maximise their export of biofuels
• Solution? A world agreement on disincentives to fossil-carbon emissions, or the same level of support for biofuels in all jurisdictions
The WTO Dimension

• Is biodiesel an ‘Agricultural Product’?
• Disciplines on Subsidies
• Sustainability criteria, National Treatment, and ‘Like Products’
Agricultural Support

• *If* the EU had to include the consumer cost of the UK’s current RTFO, and the *full* taxpayer cost of the UK’s biofuel tax rebates, on both *biodiesel* and bioethanol, on imports and EU production, aggregated up to EU27, this would amount to 16% of its current Amber Box allowance.
Concluding Comments

• Considerable policy (and institutional) churn
• EU’s bioenergy industry heavily dependent on support
• EU policy can lead to perverse trade flows
• But WTO provisions on subsidies, and the constraints of the Agreement on Agriculture, do not seem problematic
• However, sustainability criteria could lead to trade conflict in the WTO
Acknowledgements:


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