

Biofuels

PIIE Symposium on a Sustainable Energy
Trade Agreement

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A blurred background image showing a conference table with microphones and nameplates. The nameplates are for Mongolia and Mexico. The text "MONGOLIA" and "MEXICO" is visible on the nameplates. The text "MONGOLIA" is written vertically on the left nameplate, and "MEXICO" is written vertically on the right nameplate. The text "MONGOLIA" is also visible on the table surface. The text "MEXICO" is also visible on the table surface. The text "MONGOLIA" is also visible on the table surface. The text "MEXICO" is also visible on the table surface.

SETA NEGOTIATION & BIOFUELS

SETA negotiations

- SETA: market access for environmental goods + services
- Assuming an ITA-type “critical mass” architecture:
 - MFN tariff concessions bound in schedules (identify goods by HS number and by name, as in ITA)
 - *If so*, no stand-alone institutions needed; simple to implement; enforceable via WTO dispute settlement – the gold standard of credibility
 - Exclusion of free riders might not be necessary if big players (defined by emissions or by trade volume) participate in the agreement – this is the “critical mass” concept

Biofuels

- Increase attractiveness of the overall SETA package
- Enhance balance of opportunities created by SETA
- If SETA's members work together on shaping biofuel standards/harmonizing sustainability standards for biofuels, getting a seat at this table could motivate BICs to participate

A yellow weather station is positioned in the center of a vast, golden field. The station has a white panel with several horizontal lines and numbers, likely representing weather data. A black antenna or sensor is attached to the right side of the station. The background shows a line of trees under a cloudy sky.

2000-2011

BIOFUELS TRADE

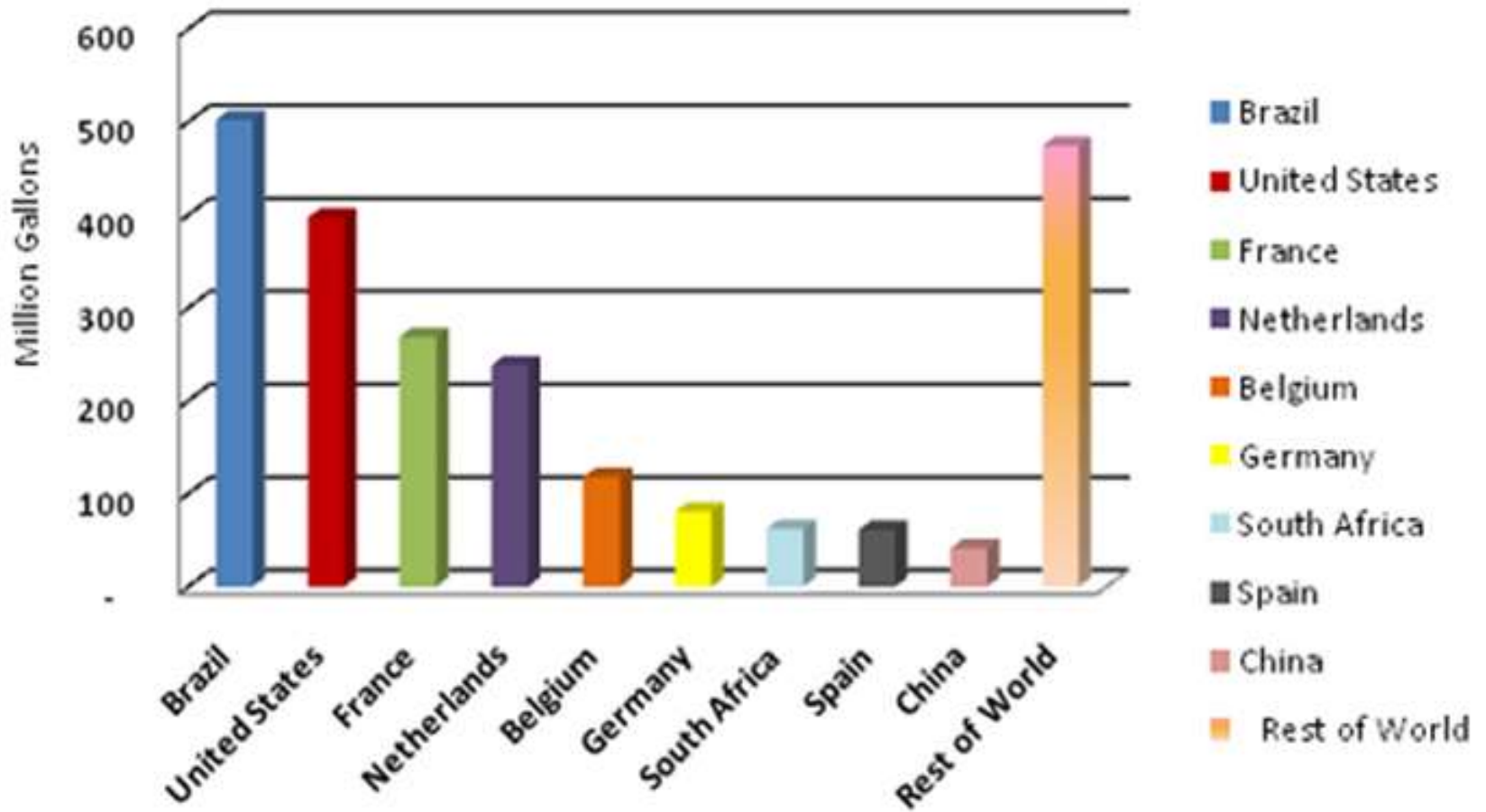
Factors driving biofuels trade

- **Input prices** – driven by domestic policy intervention, crop failures, world markets for sugar, corn and other inputs
- **Biofuel demand** – driven by e.g. mandates for biofuel use, relative price of biofuels and gasoline/diesel
- **Biofuel supply** (shortage of low-cost inputs; biofuels production capacity) and distribution infrastructure
- **Exchange rates, Subsidies, Tariffs**

Tariffs

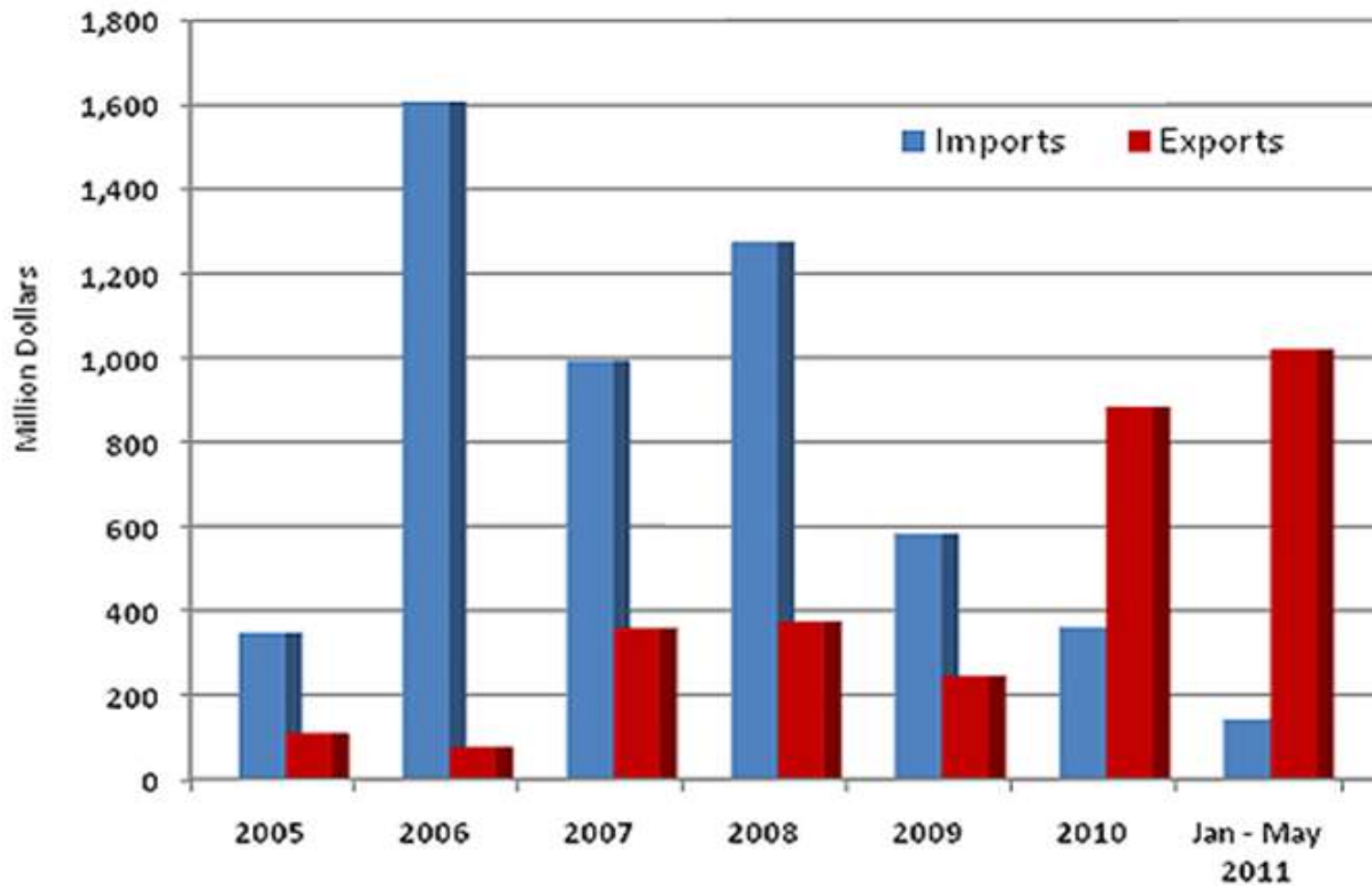
	Ethanol		Biodiesel	
	<u>Bound</u>	<u>Applied</u>	<u>Bound</u>	<u>Applied</u>
NAFTA	22.24	18.34	11.80	2.65
EU-27	36.29	31.45	12.24	5.20
Australia	10.00	5.00	10.00	1.00
NZ	2.43	0.00	3.42	0.29
Japan	27.20	1.67	0.47	2.20
Korea	130.00	103.33	6.47	6.37
Brazil	35.00	14.00	19.65	8.22
China	40.00	40.00	6.92	6.92
India	150.00	150.00	40.00	8.00
Indonesia	70.00	30.00	40.00	5.00
South Africa	597		14.84	3.75

World Ethanol Exports, 2010



Source: USDA (FAS) 2011

U.S. Ethanol Trade Balance, 2005-2011



Source: US Dept of Commerce / ITA

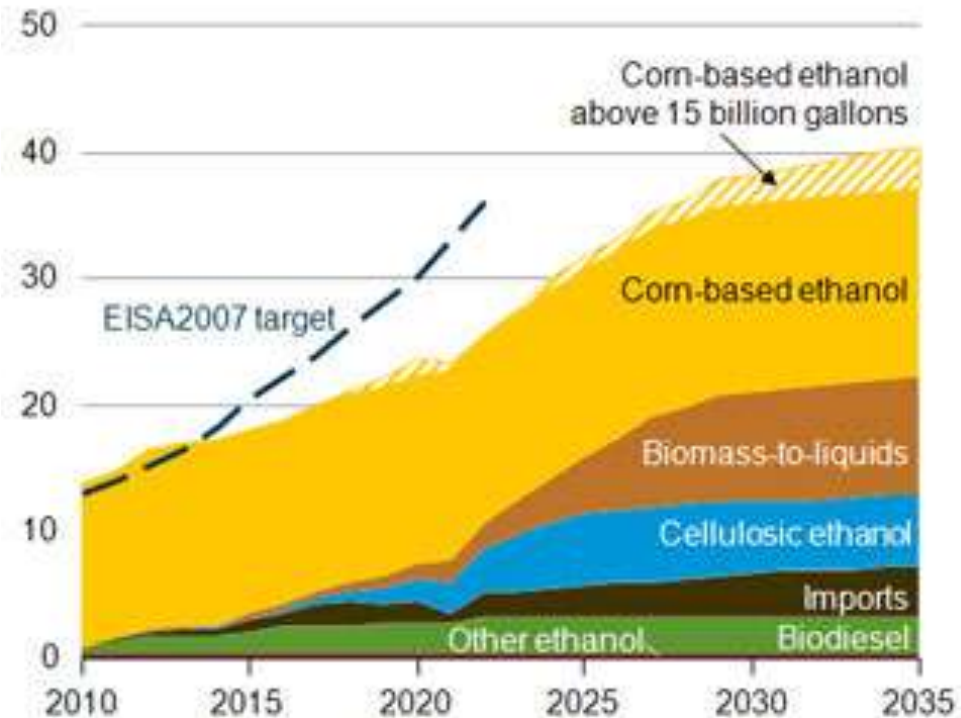


US SUBSIDIES AND MANDATES

Renewable Fuel Standard (EISA 2007)

- Federal mandate for blended fuel (ethanol mandates also exist in some US states)
- Applies for use of biofuels of any origin including imports
- EPA reviews and can revise the RFS annually based on biofuel capacity
- Projection here reflects EPA reduction in 2010+2011 cellulosic RFS due to lack of supply

Figure 98. EISA2007 renewable fuels standard, 2010-2035 (billion ethanol equivalent gallons)



Tax credits + secondary ethanol tariff

- Refundable 45¢/gallon **Volumetric Ethanol Excise Tax Credit (VEETC)** for gasohol blenders
- \$1/gallon **Biodiesel Mixture Excise Tax Credit** for biodiesel blenders + 10¢/gallon **Small Ethanol (or Agri-Biodiesel) Producer Tax Credit** + \$1/gallon **Biodiesel Income Tax Credit** + **Alternative Fuel Infrastructure Tax Credit** (30% of cost of fueling equipment for alternative fuels)
- 54¢/gallon **secondary tariff on ethanol**

All of these expire 31 December 2011

Other US biofuel incentives

- \$1.01/gallon **Cellulosic Biofuel Producer Tax Credit** + special depreciation for cellulosic biomass ethanol plants: both expire 31 Dec 2012
- 2008 Farm Bill authorized \$1.1 billion for energy programs including production subsidies for advanced biofuels, loan guarantees for processing plants, grants for biofuel infrastructure – not funded past 2012
- **State subsidies** estimated at 20¢/l by Global Subsidies Initiative (GSI), 2007: location subsidies, excise tax reductions, tax credits
- **Farm subsidies:** “fuel share” of corn subsidies ~\$450 million in crop year 2007 (GSI) .

Reaction (1) – from the EU

- EU biofuels industry countervailing duty petition October 2011 asks for EC Commission investigation of subsidies to US ethanol
 - 2009 EU investigation of US biodiesel led to 0%-35% antidumping duties and 29%-41% countervailing duties—severely affecting US biodiesel exports to the EU

Reaction (2) – 2011 US legislative process

- VEETC + ethanol tariff **sunset 31 Dec 2011**: unless Congress agrees to renew, **these benefits expire**
 - **2011**: a year of Congressional **deadlock**
- **Criticism by food processing industry, livestock/poultry producers, anti-hunger NGOs: ethanol subsidies inflate corn and feed prices**
 - US ethanol: 12% of world corn supply 2011
 - ICTSD (Babcock): US biofuel policies pushed up 2011 corn price by 17%
 - Legislative proposal supported by livestock industry and others: reduce the RFS in years of tight corn supply

Reaction (2) – 2011 US legislative process

- **Criticism by climate NGOs and academics:**
 - Life-cycle studies argue that corn-based ethanol (especially if produced in coal-fired plants) produces little/no savings in GHG emissions
- **Deficit politics 2011:**
 - Crisis mood hits government spending programs; loan guarantees become politically toxic
 - Farm Bill 2012 proposals, and compromise deals on ethanol subsidies/tariffs, have disappeared into the budget “super-committee” process
- **BUT watch Iowa**

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