

Reducing Barriers to Trade and Investment in Biofuels

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Presentation at the 2011 Ethanol Summit

Sao Paulo, Brazil

June 7, 2011

Overview: Reducing Barriers to Trade and Investment in Biofuels

- Liberalization of biofuels would serve two important goals:
 - Energy security
 - Ethanol can help meet rising demand for transportation fuels; at current oil prices, ethanol from sugarcane can be cost competitive and back out some gasoline production.
 - Backdoor GHG policy
 - The California Air Resources Board estimates that sugarcane ethanol reduces GHG emissions by 25 percent compared with gasoline, whereas corn ethanol increases GHG emissions by about 4 percent.
- But trade and investment is distorted by tariffs and subsidies, especially in the United States and the European Union.

Key Biofuel Tariffs and Subsidies

United States

- Volumetric Ethanol Excise Tax Credit (VEETC): 45 cents per gallon.
- Ethanol tariff: 54 cents per gallon, in addition to a 2.5 percent ad valorem charge
- 4.5 percent tariff on biodiesel.

Brazil

- 20-percent ethanol tariff; temporarily removed from April 2010 until December 31, 2011.

European Union

- 10.2 euro per hectoliter (45 percent) tariff on ethanol.
- 6.5 percent tariff on biodiesel.

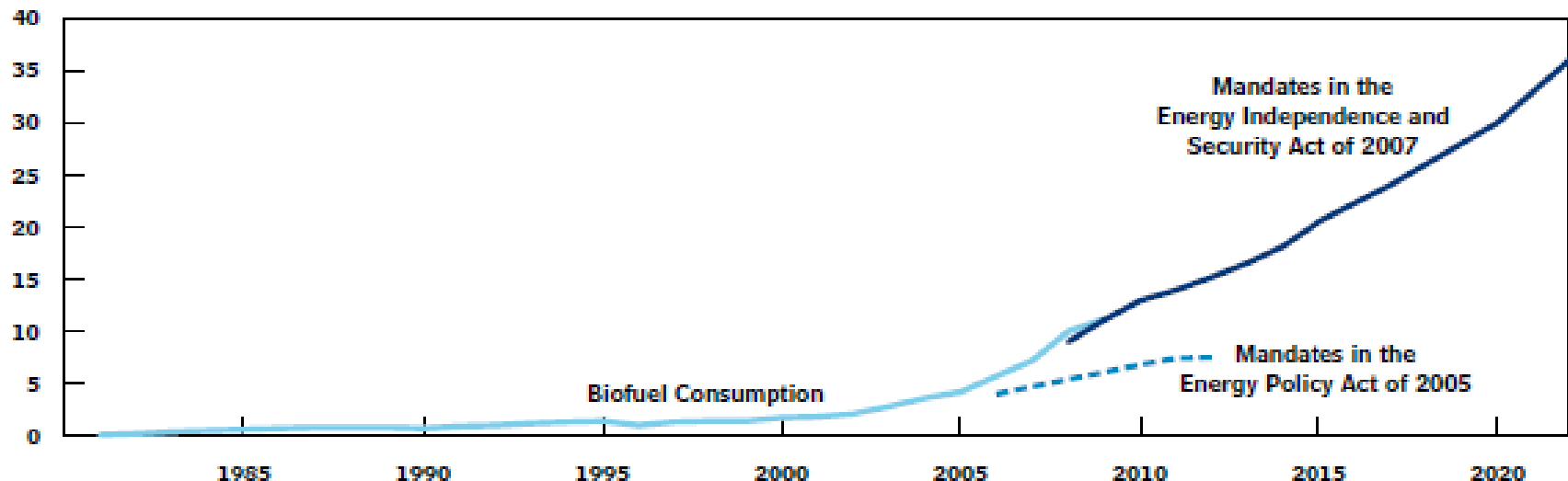
Muddled US Biofuels Policy

- US law requires substantial increases in “advanced” biofuels consumption...but sharply limits imported biofuels such as those from Brazilian sugarcane, which have lower lifecycle GHG emissions and are better able to meet the mandates.

Figure 1.

Historical Biofuel Consumption and Mandates for Future Biofuel Use, 1981 to 2022

(Billions of gallons)



Source: Congressional Budget Office based on Energy Information Administration, *Monthly Energy Review: May 2010* (May 27, 2010), Tables 10.3 and 10.4, available at <http://tonto.eia.doe.gov/FTP/ROOT/multifuel/mer/00351005.pdf>; the Energy Policy Act of 2005 (Public Law 109-58); and the Energy Independence and Security Act of 2007 (Public Law 110-140).

The Supply of Biofuels in the United States (percent of total)

	2006	2007	2008	2009	2010
Domestic ethanol	83	87	89	94	97
Imported ethanol	12	5	5	2	1
Ethanol from Brazil	8	3	2	1	1
Domestic biodiesel	5	7	7	4	2

Memorandum:

Total US biofuel supply (billions of gallons)	5.9	7.5	10.5	11.5	13.6
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Source: Energy Information Administration, *Monthly Energy Review: May 2011*; USITC Dataweb 2011.

Time for Real Reform?

- In FY 2009, biofuel tax credits cost the US federal government about \$6 billion. US budget deficits require sharp cutbacks.
- Senators Grassley (R-IA) and Conrad (D-ND) propose to sharply pare back both the tax breaks and the tariff, indexing the VEETC to oil prices starting in 2014 and reducing the tariff to 15 cents per gallon by 2013.
- However, the issue may be lost in the partisan and inconclusive budget debate in the run-up to the 2012 presidential election.

A Tripartite Biofuels Agreement?

- The US-Brazil Summit in March 2011 set the goal of expanding regional investment in biofuels as part of a Strategic Energy Dialogue.
- Bilateral agreement on trade reforms would help meet ethanol mandates at a reasonable economic and environmental cost and curb fuel-related GHG emissions.
- Agreement could evolve into a Tripartite Biofuels Pact including the EU.
- An agreement on biofuels could provide a start toward a broader “Sustainable Energy Free Trade Agreement” on environmental goods and services, which could generate global GDP gains of more than \$5 billion.