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**New ECIPE study:**

## **The EU's Biofuels Policy and the Renewable Energy Directive: Costly, Protectionist – and at Risk of Violating WTO Rules**

**Trade ministers are meeting this week in Geneva to discuss the future of the World Trade Organisation (WTO). One of many challenges to the WTO, and the basic structure of trade rules it has established over several decades, is the conflict they might present to climate change policies in some countries that are overtly protectionist. One conflict of that nature is brewing as Europe recently has pressed ahead with a new trade-restrictive element in its biofuels policy. In a new study of the European Union's biofuels policy, economist Fredrik Erixon shows how biofuels policy, once motivated by environmental concerns and the desire to shift away from fossil fuels, has become an industrial policy using various measures to protect domestic producers from foreign competition. If the Renewable Energy Directive is implemented in the way the legislation has proposed, the EU is likely to run afoul of its obligations in the World Trade Organisation (WTO).**

The European Union has subsidized its biofuels sector for a long time. Subsidies add up to around 4 billion EUR, which is significant for such a small sector. Another way to look at subsidies is that every litre of ethanol consumed in Europe gets 0,74 EUR and every litre of biodiesel 0,5 EUR. For every tonne CO<sub>2</sub> emission avoided by the use of biofuels, the EU gives support up 4400 EUR. For every tonne of reduction achieved with the help of subsidies in Europe, at least 20 tonnes of CO<sub>2</sub> equivalent offsets could be purchased on the European Climate Exchange.

- Europe's biofuels policy borders to economic madness. It is costly and protectionist. It is designed to support European farmers rather than to shift Europe's energy consumption away from fossil fuels, says Fredrik Erixon.

In the Renewable Energy Directive that the EU adopted recently, another trade-distortive measure has been proposed. Unless the legislation will be changed, Europe will introduce a technical regulation that will effectively cut off from the EU market many foreign producers of biofuels. The technical regulation says that the greenhouse gas saving from a new entity of biofuel must be no less than 35 percent. This target is not chosen for environmental reasons, but to ensure that domestic produce in Europe will qualify for the tax-excite exemption on biofuels.

This policy will conflict with core rules of the World Trade Organisation. Nor is it likely to get legal cover in the General Exception rule – which says a country can be in violation of other obligations under certain conditions. Yet it will have a considerable effect on EU import of biofuels and increase even further the cost to change from fossil fuels to biofuels.

**Publication details:** *Green Protectionism in the European Union:*

*How Europe's Biofuels Policy and the Renewable Energy Directive Violates WTO Commitments.*

By Fredrik Erixon and with a preface by Roderick Abbott, former Deputy Director General of the WTO

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The paper can be downloaded at [www.ecipe.org](http://www.ecipe.org).