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NEW PAPER:

The rising trend of green protectionism: Biofuels and the European Union

In a new paper, Fredrik Erixon surveys and discusses the Renewable Energy Directive (RED) in the European Union and its compatibility with EU obligations in the World Trade Organisation (WTO). More particularly, the paper sheds light on the involvement of policies in Europe to protect biofuels producers from foreign competition. While the effectiveness of traditional protective tools of trade policy – tariffs and subsidies – are diminishing, local producers have embraced the introduction of specific sustainability criteria that would have the effect of protecting incumbent market actors while increasing the cost for new foreign market entrants.

Europe's biofuels consumption is dominated by local supply. Import plays a growing yet small role. However, import is likely to grow in the near future as the cost of local production of biodiesel and ethanol are comparatively high. The local industry, however, has invested on the premise that demand for its production – especially of biodiesel – will continue to grow rapidly.

The utilisation ratio is below 50% and the industry is trying to cope with typical problems of overinvestment. This particular problem explains to a large degree why Europe established its new sustainability criteria in the way it did in 2009, when the Renewable Energy Directive was adopted. As countries now are introducing new types of certification schemes on the basis of RED, and as we are getting closer to the point in time when those criteria will be applied (2013), there is a growing fear that trade and competition will become one of the casualties of Europe's ambition to expand its own biofuels sector.

Restricting imports on the basis of these criteria is unlikely to stand up in a trade dispute in the WTO. If Europe moves to introduce indirect land-use change (ILUC) criteria as basis for restricting imports, it is obvious that its policy will be ruled against in the WTO. ILUC deals with factors that are beyond the control of producers of biofuels – e.g. emission of carbon in non-biofuels production – and that have no direct relation to the biofuels product itself.

While it is justifiable to consider the indirect effects of the shift of biofuels – or to regulate the environmental consequences of production of biofuels – policy cannot be used to protect domestic production at the expense of the competition agreed to in successive agreements at the WTO.

Like other forms of green protectionism, it is not environmental ambitions or policies that cause problems for international trade policy. It is the use of these policies for own industrial policy ambitions that cannot be squared by basic principles of rules of trade.

[Download the paper here](#)

Paper details

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