# SUBSIDY WATCH

A roundup of news, views and ideas on subsidies and sustainable development

GSI Global Subsidies Initiative

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**Contact:**
Christopher Beaton
IISD
International Environment House 2
9 chemin de Balexert
1219 Châtelaine
Geneva Switzerland
Phone +41 22 917-8748
Fax +41 22 917-8054
cbeaton@iisd.org

iisd International Institute for Sustainable Development / Institut international du développement durable



## COMMENTARY - INTERVIEW:

## Rising costs: fossil-fuel subsidies and oil price volatility. An interview with the IEA's Amos Bromhead

*With many governments around the world announcing the provision of generous subsidies to cope with rising commodity prices, the relationship between fossil-fuel subsidies and oil price volatility has once again risen onto the international agenda as a major concern. To help explain the connections between these two issues,* Subsidy Watch *spoke with the International Energy Agency's (IEA) Senior Energy Analyst Amos Bromhead.*

*When the G-20 committed to reform fossil-fuel subsidies in 2009, it asked four IGOs, including the IEA, to analyze the issue of energy subsidies. Can you summarize what work the IEA has done in this area since that time?*

**Bromhead**: Since the G-20 Pittsburgh Summit in 2009, we've been working with our partners the Organisation for Economic Co-operation and Development (OECD), the World Bank and the Organization of the Petroleum Exporting Countries (OPEC) to provide ongoing support to the G-20's commitment to phase out inefficient fossil-fuel subsidies.

We've collaborated on a series of reports aimed at building momentum for reform, including essentially four broad areas of analysis. First, we've been compiling estimates of the costs of fossil-fuel subsidies. Second, we've been doing modelling to highlight the positive benefits that can be obtained through reform. Third and fourth, we've identified case studies of successful reform programs and highlighted the positive action that has taken place since 2009. For example, the Asia-Pacific Economic Cooperation (APEC) also committed to the phase out of fossil-fuel subsidies, and some countries that aren't part of either group have been pursuing reform independently.

> *"Fossil-fuel subsidies have many unintended consequences. The one with most relevance to this topic is that subsidies tend to dampen the normal demand responses to changes in prices, which exacerbates volatility. We saw this in 2008. Analysts were surprised to see that, even though the international price was rising sharply, there was still very robust global oil demand."*

In addition, the IEA's *World Energy Outlook 2010* devoted significant attention to fossil-fuel subsidies. We estimated that consumer subsidies were worth US$ 312 billion in 2009. In the current economic climate, this is a significant amount of money which could be used to more directly tackle priorities such as poverty alleviation, health or education. Our modelling also showed

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that if subsidies are reformed by 2020, global energy demand could be reduced by 5%. This has significant implications for energy markets and efforts to combat climate change.

*Is the IEA preparing more analysis on fossil-fuel subsidies for the next G-20 Summit?*

**Bromhead**: We're working with the OECD, the World Bank and OPEC to prepare another report for delivery to the G-20 Leaders' Summit, which will take place in Cannes in early November. Apart from that, we've made our fossil-fuel subsidy database available on the IEA website. This helps educate people about the size of the subsidies. We'll be developing it further as new data become available and will provide more detail in terms of what's going on behind our estimates.

We've been able to identify a couple of additional countries that can be added to our consumption-subsidy estimates. That means that our coverage will be more comprehensive, although our existing data set already covers an estimated 95% of subsidized energy consumption globally. We've also identified countries that no longer subsidize fossil-fuel consumption, either because subsidies have been phased out or movements in international oil prices have eliminated the subsidies.

In addition, we plan to quantify the causes behind variations in subsidy spending in different years. The estimates will be able to say, "This percentage change has come from policy action including reform efforts; this percentage change has come from movements in international prices; and this percentage change has come from demand shifts." You would imagine that, given what's happening with fossil-fuel prices on international markets, estimates of spending will rise this year.

> *"We are always going to have some degree of volatility and I think we can live with that. At the same time, we can take action to limit the scale and frequency of major price swings. On the demand side, getting the prices right – essentially subsidy reform – gives consumers clear signals when to cut back on demand."*

On the other hand, you've seen some countries take steps to reduce subsidies, which will work in the opposite direction.

Finally, we're also going to conduct analysis that looks specifically at APEC economies as a group, since they've made a similar commitment to the G-20.

*It's clear that commodity price volatility, including oil price volatility, is now high on the G-20's agenda for 2011. Can you give us a quick overview of the issues involved?*

**Bromhead**: Very sharp and unpredictable swings in energy prices can have significant consequences for both consumers and producers. In particular, they cast uncertainty over future revenue streams which can limit supply-side investment and also complicate economic management. Nonetheless, while price volatility is very important, we need to keep in mind that the overall price level is even more important. Most energy consumers would prefer to have a very volatile oil price at an average of, say, US$ 50 per barrel, than a constant price of US$ 100 per barrel.

There are obviously many factors that go into determining price levels – including speculation, if there are tight markets or there is geopolitical unrest – but we think the primary drivers remain the fundamentals. By that I mean the demand and supply today and expectations of demand and supply tomorrow. Since last September, we have seen international oil prices rise by about 40%. Prices at current levels pose a real threat to the fragile economic recovery by impacting balance of payments and growth. High oil prices also drive up inflation as the cost of oil has a knock-on effect on many other products. For example, the increase in oil prices has been one of the many factors that have put upward pressure on food prices, since agriculture can be very energy-intensive, and in some cases oil prices have an indirect effect on demand for biofuels.

*There are a number of links between oil price volatility and fossil-fuel subsidies. Back in 2004, for example, many countries introduced subsidies when oil prices started to rise, and we're now witnessing a number of governments guarantee hand-outs in North Africa and the Middle East due to increased commodity prices and of course the ongoing protests and social unrest. Usually, the stated intention of subsidies is to provide support for the poor, but how does this work out in reality? Do fossil-fuel subsidies make the welfare impacts of oil price volatility better or worse?*

**Bromhead**: Fossil-fuel subsidies have many unintended consequences. The one with most relevance to this topic is that subsidies tend to dampen the normal demand responses to changes in prices, which exacerbates volatility. We saw this in 2008. Analysts were surprised to see that, even though the international price was rising sharply,

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there was still very robust global oil demand. One reason for this was that many consumers were buying subsidized fuel, so they didn't face the higher prices that would normally encourage more efficient consumption.

As regards energy poverty, many states have recognized that most subsidies are ineffective and inefficient at making energy services more affordable and accessible to the poor, so they aren't good policies to cushion poor populations from economic shocks when prices rise. The cost of subsidies falls on an entire economy, but the benefits are conditional upon the purchase of subsidized goods that high-income groups can afford to buy in larger quantities. For example, poor households may not have the ability to afford even subsidized energy. Similarly, you can't benefit from subsidized gasoline if you can't afford to own a vehicle. We calculated that subsidies to kerosene, electricity and LPG, often considered to be fuels that support the basic needs of the poor, represented only 15% of our estimated US$ 312 billion of subsidies in 2009.

*And presumably, at least when oil prices are moving upward, a subsidy regime can be a fiscal liability too?*

**Bromhead**: A very good point. That's been an issue for many developing countries over the last few years and in some cases has triggered reform efforts. For example, many countries in Asia have moved to phase-out subsidies because the economic burden was becoming too high.

Budgetary pressures, and concerns that high rates of domestic demand might curtail future export earnings, have also led a number of major producers to introduce subsidy-reform programs. For example, in December 2010 Iran sharply increased domestic prices for petroleum products and electricity as it sought to cut its enormous subsidies worth about 20% of GDP. These were a heavy burden on the economy that had forced it to rely on refined product imports.

As part of our work for the G-20, we estimated that, given rising fossil-fuel prices, and in the absence of further reform efforts, subsidy spending would increase from US$ 312 billion in 2009 to US$ 600 billion in 2015. So we're talking about significant amounts of money. And the key point is that only a small percentage of spending is going to help meet the basic needs of the poor.

*Not all subsidies are designed in the same way – are some worse than others?*

**Bromhead**: There are many different types of subsidies. At the IEA we are looking at fossil-fuel consumption subsidies, which you can group into three general categories. First, there are countries that have fixed prices, with no linkage between domestic and international prices. Venezuela is an example: here, you have the gasoline and diesel price 98% below U.S. levels, and essentially the price does not change. In other countries, prices are partially deregulated. Some product prices are following more or less market trends while others remain capped. In the third group, prices have been formally liberalized, but the government still exerts considerable influence in terms of price movements in a bid to minimise domestic price volatility. Although the intent of this third category may not be to hold average prices below market levels, experience has shown that subsidies can be an unintentional consequence. Governments often find it hard to raise domestic prices when international prices are increasing, and to not immediately pass through the benefit of price declines.

Countries with fixed prices generate the most waste as there is absolutely no incentive to reduce consumption as prices rise. Those with partial deregulation are somewhat better because, generally, the fuels that are subsidized are targeting the poor, whereas other fuels, used by higher-income segments of the population, are linked to international prices. The third group is close to having fully liberalized prices as consumers have an incentive to curb consumption as prices increase, but will not be directly linked to the world price.

But ideally, we believe, prices should be fully liberalized. The countries we have identified as taking steps to phase out subsidies tend to incrementally transition through these categories, so in many cases, these three stages are a good path to follow to bring people towards market liberalization.

*If governments reform their subsidies, how else could they tackle price volatility?*

**Bromhead**: We are always going to have some degree of volatility and I think we can live with that. At the same time, we can take action to limit the scale and frequency of major price swings. On the demand side, getting the prices right – essentially subsidy reform – gives consumers clear signals when to cut back on demand. On the supply side, efforts can be made to develop stable and predictable investment climates and tax regimes to encourage adequate investment and prevent tight markets from developing. Furthermore, we can make the market more transparent by improving the availability of data on oil demand, oil supply and inventories. This is one of the reasons that we are a partner organisation in the Joint Oil Data Initiative (JODI), which aims to exchange data to enhance the transparency of global energy markets.

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*So far we've focused on petroleum derivatives. Do we also see natural gas and coal prices affected in this way by subsidies?*

**Bromhead**: Subsidy programs have the same unintended consequences, whether they apply to oil, natural gas, coal or electricity. If you subsidize energy, you dampen consumer responsiveness to high prices, create barriers to investment and drain state budgets. Most of the benefits will be accrued by the middle classes and the rich. And at the end of the day, you increase $CO_2$ emissions and exacerbate local pollution. Nonetheless, there are differences between different fuels. Subsidies for liquid fuels are particularly difficult to target, given the ease with which such fuels can be sold on the black market. In comparison, the distribution of electricity and piped natural gas is more easily monitored and controlled.

*How important is the reform of fossil-fuel subsidies to mitigating the impacts of oil price volatility?*

**Bromhead**: I think it is one of the key steps, but that we have to do more than just reform subsidies if we want to minimize volatility in energy prices. As I mentioned, we also have to work on the supply side, as well as improving data availability and transparency. At the same time, I think there are many benefits of subsidy reform, and that reducing price volatility is just one of them. The others – such as reducing energy demand and emissions, and improving fiscal sustainability – are probably even more important.

*Amos Bromhead is a Senior Energy Analyst at the Paris-based IEA with a focus on economic analysis of energy policy. He is a contributing author to the IEA's flagship* World Energy Outlook *series and recognised as the most authoritative source on energy analysis and projections. Prior to joining the IEA, Mr.Bromhead worked as an analyst within the Petroleum and International Energy Division of the Australian Department of Energy, Industry and Tourism.*

## ANALYSIS:

## Arab governments turn to subsidies to quell popular unrest

Since the protests that began in Tunisia last December started to spread throughout the Middle East and North Africa (MENA), a common response from leaders in the region has been to shore up popular support by granting large subsidies to their citizens. Governments from Morocco and Egypt to Saudi Arabia and Yemen have promised everything from cheaper food and fuel to pay raises and outright cash handouts to stem the wave of discontent.

The causes of the MENA unrest are due to a number of factors that differ between different countries, said Said Hirsh, a Middle East Economist with consultancy Capital Economics, in an interview with *Subsidy Watch*. "There are definitely similarities though: economic hardship – in the form of unemployment, inflation and corruption – and the fact that the economic reforms of the past decade have only benefited a small part of society, with many left marginalized."

> *""I do not think these subsidies will really do much in the long run," said Mohsin Kahn, a senior fellow at the Peterson Institute for International Economics, in an interview with Subsidy Watch. "They are only a short-term fix. What is needed is jobs and job training and that is going to take a long time."*

"In the poorer countries, particularly those which have introduced economic reforms, the income gap has been rising and unemployment rates remain high. Combined with rapidly rising prices, this makes the situation unbearable for many. Furthermore, the demographics of the region and its young population make it particularly difficult to provide jobs."

So far in 2011, almost a dozen countries throughout the MENA region have announced various subsidies and spending plans in response to uprisings or in anticipation of protests.

In North Africa, notable subsidy announcements include:

- On 30 January in Egypt, with protests in full swing and demands for a regime change in the air, then-President Hosni Mubarak ordered the Prime Minister to keep state subsidies in place, saying "I stress that subsidy provisions in their different forms must not be tampered," according to Al Jazeera. The announcement did little to quell the protests in Tahir Square. Mubarak stepped down

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on 11 February. Egypt had begun eliminating food subsidies in 2010, causing prices to jump, something that could have been one of the catalysts of the uprising. Newspaper *The Huffington Post* reported estimates that bread prices in Egypt could triple if subsidies were completely removed.

- On 20 February in Morocco, a week before anti-government rallies were to be held, the government announced that it would inject approximately US$ 2 billion in subsidies to curb price hikes for staples. The move did not prevent the rallies from taking place, which eventually forced Moroccan King Mohammed VI to announce on 9 March that the country would undertake comprehensive constitutional reform to improve democracy.

- On 25 February in Libya, as protests grew against Colonel Gaddafi, the government announced that it would be granting US$ 450 in allowances to help families deal with rising food costs, as well as a 150% pay raise for some public-sector workers and a number of tax cuts. This did little to stop the continued demonstrations which have since culminated in the country's ongoing civil war.

In the Middle East, some of the more prominent subsidy announcements include:

- On 16 January, two days after the ousting of President Ben Ali in Tunisia, Kuwait Emir Sheikh Sabah al-Ahmad al-Sabah ordered the cabinet to provide free food for 14 months to its citizens on top of approximately US$ 3,500 in cash handouts for each citizen. Kuwait has thus far avoided the mass protests plaguing the region.

- Also on 16 January, the Syrian government announced it had increased the heating oil allowance for public workers by 72%. More recently, President Bashar al-Assad issued a decree giving government employees 20−30% pay raises and the equivalent of US$ 30 to retired military personnel and government workers (it is not clear if this was a one-off payment or may be repeated). Protests have continued in the country and dozens of protesters have been reported killed.

- In mid-January in Yemen, the poorest country in the Arabian Peninsula, a 25% pay increase was announced for government and military workers, as well as a 50% tax cut on salaries. Later, the government also increased food subsidies and granted tuition exemptions for students at state-run universities. Although intended to prevent Tunisia-style protests, these nonetheless grew from then on. Yemen's President Ali Abdullah Saleh has now lost support of key political allies, including army commanders, amidst the continuing protests. As of mid-April, the government was on the verge of collapse.

- On 11 February in Bahrain, prior to protests being launched against the government, King Hamad bin Isa Al Khalifa ordered approximately US$ 2,500 to be paid to every Bahraini family, according to the state news agency (as in Syria, reports do not specifiy if this was a one-off payment or not). The promise failed to prevent escalating protests, which as of mid-April have been put down by security forces, leaving more than 25 people dead.

- Finally, on 23 February in Saudi Arabia, King Abdullah bin Abdul-Aziz announced US$ 36 billion worth of handouts. When that did not stop small planned protests, he followed it up with another US$ 67 billion worth of spending plans, announced on 18 March. The massive spending packages include a 15% pay raise and a two-month's salary bonus for government workers, as well as funding for military and religious groups that have backed the government's ban on protests.

Given the deep political and economic causes of the unrest, it appears that the promise of subsidies has had mixed results at best, generally failing to soothe the anger of marginalized MENA populations.

"I do not think these subsidies will really do much in the long run," said Mohsin Kahn, a senior fellow at the Peterson Institute for International Economics, in an interview with *Subsidy Watch*. "They are only a short-term fix. What is needed is jobs and job training and that is going to take a long time."

Mr. Kahn added that, "right now these are blanket subsidies and the IMF [International Monetary Fund] and the World Bank have argued that they should be much more targeted towards the people who really need them the most (i.e. the poor). This is especially relevant for food and fuel subsidies."

The policies are also costly at a time when the budgets of MENA nations, who have historically provided large amounts of food and fuel subsidies to their citizens, are under pressure from increased food prices and, for the region's petroleum-importing countries, surging oil prices.

Indeed, in 2009, fuel subsidies in MENA countries amounted to approximately US $150 billion, according to the *The Economist* newspaper. This was when

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international oil prices averaged US$ 60 a barrel. With prices now at over US$ 100 a barrel, the total fuel subsidy bill for the region could double this year to reach 7.5% of the area's GDP, even before tallying the bill for non-fuel subsidies announced throughout the region.

Mr. Hirsh believes that, aside from a few oil-rich nations such as Saudi Arabia, many of the region's governments cannot afford these subsidies, meaning that less money will be available for much-needed investments in social and physical infrastructure.

He also contended that MENA governments need instead to address their countries' dependency culture, and that "subsidies are the wrong way to handle that issue." New subsidies will only result in prolonging the economic problems in the region, even if they manage to prevent some regimes from suffering the same fate as Egypt and Tunisia.

For the time being, the trend of heavy subsidization in MENA countries continues. Most of the newly announced subsidies appear to be politically motivated, aimed at stopping further unrest, as opposed to having been carefully designed to alleviate the plight of poor people, struggling to cope with rising prices.

**COMMENTARY:**

## Clarifying misconceptions about taxpayer-subsidized ethanol exports in the United States

By Robert Rapier

Last November, the *Financial Times* published an article charging that U.S.-produced ethanol is collecting U.S. tax credits before being shipped to Europe, where it also qualifies for favorable tax treatment. I covered this story in Taxpayer Subsidized Ethanol Exports May Bite Industry in the Future. The gist of my article was that *if this charge is true*, it completely undermines the supposed reasons U.S. taxpayers are subsidizing ethanol in the first place: to reduce dependence on foreign oil. In fact, as I showed in a later article, any ethanol that is exported actually *increases* U.S. dependence on foreign oil because it takes some oil to make the ethanol and then ship it to the export market.

A similar situation had occurred previously in the biodiesel industry. Biodiesel was being subsidized by U.S. taxpayers, blended with a bit of petroleum diesel, and then shipped to Europe where it also qualified for subsidies. The EU ultimately put a stop to that practice by imposing countervailing and anti-dumping duties on biodiesel originating from the United States. The result was devastating for a U.S. biodiesel industry whose production had grown to serve a lucrative export market. U.S. ethanol producers would be wise to heed that lesson.

> *"A similar situation had occurred previously in the biodiesel industry. Biodiesel was being subsidized by U.S. taxpayers, blended with a bit of petroleum diesel, and then shipped to Europe where it also qualified for subsidies. The EU ultimately put a stop to that practice...."*

Since then, the ethanol lobby has either: 1) flatly denied that any ethanol was collecting subsidies and leaving the country; 2) stated that the practice was illegal; or 3) claimed to know nothing of this.

### *The Legality of Collecting Ethanol Credits on Blended Exports*

In fact, there is no law preventing exporters from collecting the Volumetric Ethanol Excise Tax Credit (VEETC) prior to shipping ethanol out of the country. Details of how the ethanol tax credit is applied can be found in Section 6426 of the internal revenue code at: Credit for alcohol fuel, biodiesel, and alternative fuel mixtures.

Section 6426 (b) defines the alcohol fuel mixture credit and section (i) limits the credits to fuels with connection to the United States. Any ethanol produced and blended in the United States is obviously connected to the United States, and thus can collect the VEETC. There is no stipulation that, after collecting the VEETC, the ethanol blend must remain in the U.S. So anyone asserting that the practice is illegal is either being disingenuous, or is ignorant of the law. If an ethanol proponent wants to still assert that the practice is illegal, they need to point to the specific code that prevents someone from buying ethanol, blending it with some gasoline,

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collecting the tax credit, and then exporting the mixture to Europe.

Christoph Berg, Managing Director of F.O. Licht, an industry news service, has said that he has records showing that U.S. ethanol is being exported and collecting subsidies at both ends, but that there are discrepancies between official export statistics and shipping reports by brokers. Data from the U.S. Energy Information Administration also shows that, despite the high level of U.S. dependence on petroleum imports, finished motor gasoline is being exported out of the country. Ethanol blends are considered finished motor gasoline.

### *The Outcome - It's Just a Matter of Time*

Just as I warned, producers in Europe are now considering legal action to stop the practice:

According to a recent article by Reuters, "EU bioethanol group weighs U.S. subsidy lawsuit", producers such as Germany's CropEnergies and Spain's Abengoa are gathering data on tax credits granted by the U.S. government to U.S. firms that blend ethanol with gasoline. They say the tax break squeezes the margins of competing European producers when the resulting blend is exported to the EU. One industry spokesperson indicated that they expected by the end of March to know whether they have a case that's strong enough to take to the European Commission.

The article also quoted RFA spokesman Matt Harwig:

"While the complaints of the European ethanol industry are understandable, their angst is misguided at U.S. ethanol tax policy," said Matt Hartwig, spokesman for the U.S.-based Renewable Fuels Association.

"It remains unclear if any additional volumes of ethanol are flowing into Europe under this particular tariff schedule. EU nations have yet to provide any data and we have not seen any to date that suggests this is happening at above-normal levels."

Those are interesting comments. Phrases like "it remains unclear", "any additional volumes", and "above-normal levels" are probably about as close as the RFA will ever come to admitting that they are aware that it is happening.

### *Conclusions*

Here is what I think. Ethanol is in fact being blended with gasoline in the United States − benefiting from tax policy that has been defended on the basis of helping to reduce U.S. dependence on foreign oil − and then being shipped to foreign countries in increasing volumes. I think the ethanol lobbies know that this is happening, which is why one sees the sort of carefully worded language Hartwig used above.

Even though this practice benefits the U.S. ethanol industry at the expense of U.S. taxpayers, there may be nothing they can do about it since they do not collect the tax credit themselves. If someone wants to buy ethanol from them, they sell it to them. If the buyer then turns around and games U.S. tax policy by collecting the VEETC and exporting the ethanol after mixing it with gasoline, the ethanol industry is probably not in a position to stop that unless they simply refuse to sell to companies that are suspected of these practices.

I also have heard some ethanol supporters − even within the ethanol lobby – agree that if subsidized ethanol is being exported that this practice needs to stop. It would be great if the ethanol industry itself were to take the lead in investigating the practice and in urging legislation to stop it, instead of claiming that "it remains unclear." In the short term, it will cost the ethanol industry some sales. In the longer term, it will prevent a public backlash and avoid having this matter decided by the EU courts.

If the ethanol industry wishes to produce more ethanol than the market in the U.S. can bear and then export it, then it is their right to do so − provided that ethanol is not being subsidized by U.S. taxpayers. I have heard ethanol producers claim that the U.S. market is saturated, and this therefore justifies the export of ethanol. My view is that as long as the ethanol is being subsidized, they should have no reason to expect perpetually growing markets courtesy of U.S. taxpayers. If the U.S. market is saturated, then: 1) stop expanding ethanol production; 2) grow the E85 market; or 3) grow the export market, but do so without taxpayer assistance.

*Robert Rapier is an experienced professional in the energy industry, having worked on cellulosic ethanol, butanol production, oil refining, natural gas production and gas-to-liquids (GTL). He currently works as the Chief Technology Officer for bioenergy holding company Merica International. His blog,* R-Squared Energy Blog*, whose mission is to foster open discussions about energy and the environment, originally hosted a longer version of this article, which can be accessed here: http://www.consumerenergyreport.com/2011/03/22/clarifying-misconceptions-on-taxpayer-subsidized-ethanol-exports/*

**ANALYSIS:**

# Global food prices and increased biofuel production: an overview of the food vs. fuel debate

By Chris Charles, the Global Subsidies Initiative (GSI)

*Author's note: This article provides a short overview of the more prominent research papers, media articles and organisations that have been involved in the debate about increased biofuel production and rising food prices – the 'food vs. fuel' debate. As literature on the subject is extensive and growing, it does not claim to be comprehensive, nor to evaluate the accuracy of the research publications and statements to which it refers.*

From 2006 to 2008, the world saw new price highs for a number of food commodities, with prices for grains like maize rising substantially, despite record crops, and many poor communities no longer able to afford their basic needs. When an internal World Bank report was leaked to the British newspaper *The Guardian*, worldwide attention turned to the role that biofuels might be playing in the crisis. It argued that increased biofuel production – in many countries, driven by generous subsidy programmes – had resulted in food commodities being diverted for use as biofuel feedstocks, such that food markets were now in direct competition with energy markets. The heated arguments over its findings have come to be known as the 'food vs. fuel' debate.

The study, written by Dr. Donald Mitchell, Lead Economist at the World Bank's Development Prospects Group, put forward the idea that expanding biofuel markets had led farmers to produce crops for the biofuels sector at the expense of local and international food markets. It principally identified biofuels as the most important driver of food price volatility, responsible for 75% of the recent price increases, although recognizing that other factors were also important, including weather-related production shortfalls, market speculation and economic growth in developing countries leading to increased grain consumption.

Much debate and analysis followed, with studies scrutinizing Mitchell's methodology and findings. Among the critics who emerged, economist John M. Urbanchuk, who had previously prepared research papers and position statements for industry associations representing the biofuels sector, was one of the most vocal. He expressed a number of concerns about the methodology by which sharp global food price rises had been attributed principally to biofuel production, arguing that the weak U.S. dollar and the direct and indirect effect of high petroleum prices had not been sufficiently taken into account.

At the same time, evidence that biofuels were contributing to rising food prices was emerging from a number of research institutions. The Organisation for Economic Co-operation and Development (OECD), whose own research on the issue, published just one month after Mitchell's paper was leaked, established the same basic relationship between increased biofuel production and higher food prices for some grains, such as wheat and maize.

From its beginnings, the debate has been strikingly emotive, with many organisations adopting hard-line, polar-opposite positions, and the media, intergovernmental organisations, non-governmental organisations, and politicians all being drawn in. Even before Mitchell's paper drew attention to the issue, Jean Ziegler, the United Nations Special Rapporteur on the Right to Food, had spoken out against the increasing practice of turning crops into biofuel as "a crime against humanity", which left millions of poor people hungry.

In response, representatives of the biofuels industry have largely taken a hard-line stance in refuting such assertions, blaming food price increases on the interplay of various factors not linked to biofuels. Common arguments include that the 2008 peaks were driven by speculation, as investors shifted from share markets to commodity markets, and that retail companies in the United States had failed to pass on savings after prices had begun to fall. Citing the mainstream media's coverage of these competing theories, the United States National Corn Growers Association argued that the relationship between biofuels and commodity prices was a 'case closed'. Politicians who had been promoting the ethanol industry also entered into the debate. Senator Charles E. Grassley, for example, wrote to the Grocery Manufacturers Association, referring to the debate as a 'smear campaign' and criticising the organisation for having linked price increases of grocery market food to increased ethanol production. He implied that it was in fact a strategy to "increase the bottom line of grocery manufacturers".

The debate has also become caught up in the growing movement against the continued provision of government subsidies to first-generation biofuels. Just months before the release of Mitchell's paper, Joachim von Braun, Director General of the International Food Policy Research Institute (IFPRI), had called on governments to revoke "biofuel subsidies and excessive blending quotas", recommending that biofuel production should be frozen at current levels and a moratorium enacted on the use of grains and oil

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seeds for biofuels in order to free up commodities for use as food. The Global Subsidies Initiative was also instrumental in drawing attention to the large costs and unintended impacts of many biofuel subsidies, with a series of reports estimating their size and effects in various countries around the world.

Time has not brought about a resolution to the dispute, though extensive literature has been written on the subject and is growing rapidly. In 2010, a follow-up study by World Bank economist John Baffes and European Commission economist Tassos Haniotis argued that the role played by biofuels in the record 2006-2008 commodity-price highs was not as large as originally thought. Their findings suggested that biofuels had indeed contributed to increasing prices, but only as one of a number of factors. This was portrayed by industry representatives as a change in the World Bank's position, though both the earlier paper by Mitchell and the subsequent one by Baffes and Haniotis were products of individual researchers and did not represent any institutional stance.

With prices spiking again in 2011, the issue has resurfaced in the mainstream media. In February, a *Washington Post* opinion piece by leading biofuels analyst Tim Searchinger called for an increased recognition of the role of biofuels in determining world food prices. In response to conclusions like those reached by Baffes and Haniotis, he contended that analysis to date had been based on false assumptions about world markets and that it was not possible "to segregate the precise role of biofuels from weather and other factors", as the stress that biofuel production placed on markets would only serve to multiply the impact of other factors, such as Russia's recent drought or flooding in Australia.

The ongoing political crises in the Middle East have also revived media interest, with Time Magazine exploring the role that biofuel-related food-commodity price rises might have played in the fall of Egypt's political regime, as well as the implication of price rises for countries recovering from the global economic crisis. According to the article, the U.S. ethanol industry is again fighting back against suggestions that biofuels might be responsible, with Tom Buis, CEO of Growth Energy, protesting that a "highly well-funded and highly orchestrated campaign of misinformation" was overplaying the impact of biofuels on food prices. The animated on-line discussion that subsequently took place between members of the public, industry representatives and researchers is illustrative of the many divergent opinions that still exist on the relative benefits of biofuels.

As a whole, the debate has been characterized by a lack of clarity between different actors about what issues are actually important and should be considered for further discussion and analysis. There are also many examples of different groups talking past each other on important issues concerning which food commodities are really important and how much they are affected by biofuel production. For example, representatives of the U.S. biofuels industry often concentrate their focus on food prices listed on the U.S. retail food price index, despite the fact that the index is a poor indicator of changes in the price of primary commodities.

Another key issue is the technical difficulty of estimating the relative weight played by different, interlinked factors that affect world prices. The relative importance researchers place on biofuels as the cause of food price volatility continues to vary depending on the assumptions used in modeling exercises.

The stakes are also high. The biofuels industry has invested significant amounts of money in developing biofuel infrastructure and technologies which would suffer if government subsidies and mandates were reduced or stopped – the likely result of establishing a causal link between biofuel production and increasing prices for staple food products. This tension explains the lack of constructive dialogue that has taken place between the biofuel industry and other stakeholders in order to assess the scope of the problem.

What is clear is that the debate will continue to intensify as governments increase biofuel blending mandates and biofuel production levels rise: the International Energy Agency forecasts that biofuel support and production will grow significantly in the next 15 years and many European governments, such as the United Kingdom, are currently considering an increase in their mandates. An increasing global population, continued commodity market speculation, and weather-related production short-falls will also continue to contribute towards volatile global food markets and put pressure on an already-strained agricultural sector. Given that biofuel production and volatile food markets are likely to continue to co-exist, developing a better understanding of how biofuels affect food markets is of critical importance.

*The "food versus fuel" debate will be discussed in a forthcoming publication by the Global Subsidies Initiative (GSI) called "The Political Economy of Biofuel Subsidies" (working title). The report will provide an analysis of the interplay between economic and political objectives affecting biofuel subsidy policies.*

GSI Global Subsidies Initiative

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## NEWS:

# Fossil-fuel subsidies round-up: February and March 2011

*Following announcements that fossil-fuel subsidies will be phased out, from the G-20, the Asian-Pacific Economic Cooperation (APEC) and a number of independent countries, including Iran, Nigeria and Bahrain,* Subsidy Watch *has decided each month to highlight important news stories that touch on this theme…*

**31 January** Morocco will have to pay a record US$ 5 billion in fuel subsidies if oil prices remain near US$ 100 a barrel, reports Reuters news agency. The amount would surpass its previous record of US$ 3 billion paid in 2010 when crude oil prices were around US$ 85 a barrel.

**2 February** New Jersey Governor Chris Christie signs into law a program of long-term incentives to build new power plants in the State, reports the *Wall Street Journal*. The bill will guarantee ratepayer subsidies to build up to 2,000 megawatts of new natural-gas fired generating capacity. If that capacity were built, ratepayers' subsidies could amount to more than US$ 2 billion over 15 years.

**5 February** The *Wall Street Journal* reports that, over the past weeks, regimes in the Middle East and North Africa have increased food and fuel subsidies in an effort to dampen civil unrest. Subsidies were expected to push these governments further into debt (see 'Arab governments turn to subsidies to quell popular unrest' in this issue of *Subsidy Watch* for more information).

- Jordan's government announced a surprise pay rise for civil servants and a US$ 125 million package of subsidies for fuel and staple foods.
- In Syria, the government of Bashar al-Assad reversed subsidy cuts on energy, lifting heating-oil allowances for public workers by 72%.
- Libya and Algeria moved to relax food taxes or cut prices of staple foods.
- Morocco's government, which heavily subsidizes food and petroleum, vowed to keep food prices at affordable levels "at any price".

**9 February** According to a new report by the Australia Institute, in the 2010-11 fiscal year the government will provide A$ 9 billion (US$ 9.25 billion) in subsidies and tax concessions to the mining, gas and petroleum industries.

**10 February** U.S. House Democrats introduce the "Ending Big Oil Tax Subsidies Act" which seeks to repeal subsidies valued at US$ 40 billion over five years, reports news website Bloomberg. The proposed savings would be used to fund initiatives including clean-energy programs. The bill has been referred to the House Committee on Ways and Means according to govtrack.us, a civic website that tracks legislation in the U.S. Congress.

**12 February** Thai Prime Minister Abhisit Vejjajiva extends the country's diesel subsidy until April, reports Thai newspaper *The Nation*. The government will use its Oil Fund to keep the retail price of diesel below THB 30 per litre (US$ 0.99).

**13 February** Venezuela spends more than US$ 1.5 billion a year on fuel subsidies that keep the South American country's domestic fuel prices the lowest in the world, reports the *Wall Street Journal*.

**14 February** United States President Barack Obama releases his budget for the 2012 fiscal year, proposing cuts to oil, gas and coal subsidies worth US$ 46 billion over 10 years, reports Reuters news agency. The proposed budget also cuts funding for oil and gas research and for hydrogen fuels programs. Republicans oppose cutting subsidies for fossil fuels, saying it would hurt industries that provide jobs while the economy is still fragile.

**15 February** Reuters news agency reports that the Indian government will bear up to 50% of the subsidy burden of state-run oil companies that arises from selling fuels below cost. Later in February, Reuters reports that the federal government's budget for 2011-12 provided IDR 200 billion (US$ 4.4 billion) in cash subsidies to state-run oil retailers.

**17 February** According to Reuters news agency, IMF Director for the Middle East Masood Ahmed tells reporters that while governments may feel the need to increase subsidies to ease social pressures, it would be more effective and affordable to target such assistance at those who need it the most, instead of providing general subsidies that also help the rich.

**28 February** According to classified documents obtained by Greenpeace, Australian officials had identified 17 fossil-fuel subsidies that might fall within the government's commitment to the G-20 to phase out fossil-fuel subsidies, despite having told the international forum that no such subsidies existed, reports business newspaper the *Australian Financial Review*. Greenpeace had accessed the government documents under Freedom of Information laws. As detailed in a blog by subsidy investigators Earth Track, the officials had justified their reporting on the basis that: Australia should not go further than other

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## Fossil-fuel subsidies round-up...

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countries in offering up subsidies for reform; the subsidies were not relevant because they applied to exploration rather than production; and they disputed the fact that the subsidies were inefficient and encouraged wasteful consumption.

**1 March** Despite increasing petrol prices by an average of 9.9%, Pakistan's government will continue to subsidise oil consumption in the country at a cost of at least PKR 5 billion (US$ 59 million) a month, reports newspaper *The Express Tribune*.

**2 March** Trinidad and Tobago's Energy Minister Carolyn Seepersad-Bachan says that the country's subsidy on gasoline for 2010 was US$ 360 million, according to newspaper the *Trinidad Express*. She also says that the subsidy will need to be reduced in the future because of rising oil prices and the need for greater fiscal discipline.

**8 March** China's majority state-owned oil company Sinopec Corp commences internal subsidies to its refineries of CNY 770−800 (US$ 118 to US $122) for each tonne of extra gasoline produced, reports Reuters news agency. The policy is intended to boost gasoline production. Sinopec is also reported to be limiting its exports.

**10 March** The Chilean Government rushes to Congress a fuel-price subsidy bill to protect consumers from the increases in fuel prices, reports the *Wall Street Journal*.

**10 March** Fuel subsidies in the Middle East and North African region could reach US$ 300 billion this year, over 7% of the area's GDP, if international oil prices remain at around US$ 120 per barrel and domestic prices are held constant, according to estimates from the *The Economist* newspaper. Qatar and Iran are the only countries to have so far had the courage to raise domestic fuel prices. Food subsidies, wage rises and cash handouts are also being offered by most governments in the region. In addition, the oil and gas exporters are promising significant investments in infrastructure. Reuters analysis in the following week notes that instability in the region is likely to hold back subsidy reform for some time, which will hamper efforts to reduce carbon emissions or adopt renewable energy alternatives. (See 'Arab governments turn to subsidies to quell popular unrest' in this issue of *Subsidy Watch* for more information)

**11 March** Malaysian newspaper *The Star* reports that the government will need to allocate another MYR 4 billion (US$ 1.3 billion) for its fuel subsidy if international oil prices remain at current levels (over US$ 100 per barrel).

**11 March** Newspaper *The Vientiane Times* reports that the Lao Government is said to be considering a new fuel subsidy, according to the community website *Lao Voices*. The proposed subsidy would see the government lose more than LAK 70 billion (US$ 8.7 million) a month through fuel subsidies.

**14 March** Mozambique is set to increase its 2011 budget by 45% to maintain food and fuel subsidies, reports AFP news wires.

**15 March** The Indonesian Finance minister says that if crude oil prices remain over US $90 for all of 2011, the fuel subsidy may increase to a range of IDR 110−140 trillion (US$ 12.6 billion to US$ 16 billion), depending on the currency's appreciation, according to financial information firm Dow Jones. A week later, an Indonesian parliamentary commission approves a government plan to continue fuel subsidies, reports Reuters news agency.

**17 March** The National Iranian Oil Products Distribution Company's managing director says that the country saved US$ 1.8 billion in fuel consumption after implementing its subsidy reform plan, reports the *Tehran Times*. Iran will save "at least" US$ 15 billion in fuel in the next Iranian year, according to an Iranian official quoted in an article by news website Bloomberg.

**20 March** Investigative journalism by the Sri Lankan newspaper *The Sunday Times* reveals that the Sri Lankan Treasury issued bonds to cover debts of the state power company, the Ceylon Electricity Board, amounting to around LKR 52 billion (US$ 470 million).

**23 March** The Canadian federal budget includes a measure that will gradually reduce incentives for oil sands producers. The adjustments are expected to increase federal revenues by about C$15 million (US$ 15.4 million) in the 2011-12 fiscal year and C$ 30 million (US$ 30.8 million) in the following year. The budget documents state that the measures constitute further action by Canada in support of the commitment by G-20 leaders to rationalize and phase out fossil fuel subsidies. The Pembina Institute, a Canadian think tank dedicated to promoting sustainable energy, called the measure a "minor subsidy adjustment" and noted that the budget still "leaves more than $1 billion in tax breaks for oil companies on the table."

**26 March** The Philippines government plans to grant fuel subsidies to the transport sector to ease the effects of higher world oil prices, according to newspaper the

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## Fossil-fuel subsidies round-up...

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*Manila Standard Today*. The government would issue fuel cards to jeeps and buses that would give drivers a three-peso discount (US$ 0.07) per litre of gasoline or diesel.

**29 March** Thailand's Finance Minister Korn Chatikavanij says that the diesel subsidy will continue until July, reports Thai newspaper *The Nation*. The government previously said that the subsidy would be removed in April.

**31 March** The Mozambican government will shortly abolish general subsidies for food and fuel and replace them with subsidies targeted at low income earners, reports news website AllAfrica.com. Since May 2010, the fuel price for diesel has been frozen at MZN 31 (US$ 0.97) per litre, and that of petrol at MZN 37 (US$ 1.20) per litre. By the end of 2010, the government had paid fuel companies US$ 147 million in compensation.

*For readers interested in keeping track of fuel-pricing developments worldwide, GTZ's monthly Fuel Price News is an invaluable resource that announces publications and events, and major fuel-pricing news stories in different regions of the world. For more information see: http://www.gtz.de/en/themen/29957.htm*

**NEWS:**

## WTO subsidy dispute round-up

*In the past two months, the U.S. Congress has decided to continue paying Brazilian cotton farmers US$ 147 million a year; speculation intensifies as the United States enters into consultations with China over subsidies for wind energy; and the American Soybean Association makes noises about the potential trade impacts of the European Union's Renewable Energy Directive. Find out the details in the WTO subsidy dispute round-up....*

### *U.S. Congress upholds annual US$ 147 million payment to Brazilian cotton farmers*

On 18 February 2011, the United States' House of Representatives defeated an amendment to end annual payments of US$ 147 million to Brazilian cotton farmers.

As reported on previously by *Subsidy Watch*, the United States first agreed to give Brazilian cotton farmers "technical assistance" in April 2010, under a last-minute provisional deal to avoid trade sanctions. The Framework Agreement was reached just days before Brazil had planned to impose retaliatory tariffs against a list of 102 U.S. products, authorized by the WTO. Brazil had also listed 21 items under consideration for cross-retaliation through the suspension of patent and intellectual property rights.

According to a statement published by the National Cotton Council of America (NCC), cancelling the payments "would have violated a condition of the agreement and jeopardized the suspension of trade retaliation by Brazil."

Charles H. Parker, Chairman of the NCC, added that "U.S. cotton industry leaders are encouraged that the Framework Agreement has been sustained and are committed to work with all parties to resolve the dispute".

According to ICTSD news publication *Bridges Weekly Trade News Digest*, Ron Kind, the Wisconsin Democrat who originally proposed the amendment, commented that the payments were an example of the "lunacy" of the country's farm subsidies, and illustrative of "the built-up resistance in this institution to get to the hard work of reforming these farm-subsidy programs."

Democrat Barney Frank, a ranking member of the House Financial Services Committee, also criticised the arrangement. According to Washington DC newspaper *The Hill*, he argued during the committee's hearing that the trade dispute could alternatively have been settled by ending subsidies to U.S. cotton farmers – "We could have sent US$ 150 million less to Americans."

The payments arranged under the framework agreement will now remain until the United States develops its new farm bill in 2012. According to the NCC, this will include provisions regarding the United States' upland cotton program that Brazil has approved, bringing the dispute to an end.

United States President Barack Obama's visit to Brazil at the end of March was widely perceived as a sign of a healthy trade relationship between the two countries, with agreements being reached on number of issues, including the trade of biofuels.

### *U.S.-China WTO dispute on renewable energy: Consultations requested*

On 22 December 2010, the United States Trade Representative (USTR) requested consultations with the People's Republic of China over its support schemes for renewable energy.

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## WTO subsidy dispute round-up

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The action arose out of an investigation initiated by the USTR in response to a United Steelworkers (USW) petition filed on 9 September 2010. As reported previously in *Subsidy Watch*, this 5,800-page document alleged that "China has utilized hundreds of billions of dollars in subsidies, performance requirements, preferential practices and other trade-illegal activities to advance its domination of the sector."

In its own investigation, the USTR concluded that, since 2008, China has awarded grants worth several hundred million dollars to Chinese wind turbine manufacturers under its wind-power subsidy programs, and that its Special Fund for Wind Power Manufacturing appears to fall within the prohibition of the WTO's Agreement on Subsidies and Countervailing Measures (ASCM) Article 3.1(b), which prohibits subsidies conditioned on the use of domestic over imported goods, known as import-substitution subsidies.

"Import substitution subsidies are particularly harmful and inherently trade distorting, which is why they are expressly prohibited under WTO rules," said USTR Ambassador Ron Kirk in a press statement. "These subsidies effectively operate as a barrier to U.S. exports to China. Opening markets by removing barriers to our exports is a core element of the President's trade strategy."

A day after the submission of the complaint, the Chinese Ministry of Commerce stated that "all countries are developing new energy sources to deal with climate change. China's measures on wind power development help to save energy, reduce emissions and protect the environment, which are important measures for sustainable development, and comply with WTO rules."

In an article in British newspaper *The Guardian*, Kevin Gallagher, professor of international relations at Boston University, argued that "subsidies to renewable energy, such as wind power, can help correct the distortions in the energy market and allow the world to climb the learning curve for renewable forms of energy." He suggested that such 'market-correcting' subsidies should be allowed in the WTO's rules.

Other commentators, such as the non-profit Americans for Energy Leadership, have described the USTR's claim as "hypocritical" and argued that the U.S. itself is using policies that favour domestic manufacturing. For example, in January 2011 President Obama signed a law mandating that the U.S. Defence Department purchase domestically manufactured solar panels.

Consultations, which are the first step within WTO dispute settlement process, last 60 days. If the matter is not resolved through consultations, the United States may request the establishment of a WTO dispute-settlement panel. At the time of publication of this issue of *Subsidy Watch*, despite the period for consultations having surpassed 60 days, no information was available about an outcome: the WTO still identified the case's status as "In consultations".

### *Looming US-EU Case on Biodiesel?*

On 9 March 2011, U.S. oilseed growers, led by the American Soybean Association (ASA), expressed their concern about the European Union's Renewable Energy Directive on the grounds that it could threaten imports of American soybeans. In a letter to the U.S. Department of Agriculture (USDA) and the U.S. Trade Representative (USTR) the group called for an immediate response to the potential trade barriers and demanded that they "place an immediate priority on seeking to initiate bilateral negotiations between governments."

The Renewable Energy Directive commits the European Union to sourcing 20% of its energy from renewables by 2020, within which 10% of its transport-related energy needs must be met with renewable energy. It stipulates that, until January 2017, if biofuels and bioliquids are to be counted as contributing to this goal, they must emit at least 35% less greenhouse gas (GHG) emissions than their fossil-fuel equivalents, and after that date they must offer savings of at least 50%.

The Directive also specifies which type of land can be used to produce the biomass for the fuel in order to meet sustainability criteria. The European Commission encourages using "voluntary schemes" of "Sustainable Biofuel Certificates", to ensure that the GHG and land-use requirements are met.

EU analysis, based on Brazilian production and transportation data, concluded that U.S. soy biodiesel offers GHG savings of 31%, meaning that European importers cannot count U.S. biodiesel towards their Renewable Energy Directive targets. The ASA, however, argues that a study conducted by the United Soybean Board (USB) shows that U.S soy biodiesel saves up to 52% of the GHG emitted by fossil fuels.

Since Germany implemented the Directive, on 1 January 2011, the ASA claim that U.S. soybean exports to the country have declined significantly and that soybean oil produced in the EU from U.S. supplies is being re-exported.

Steve Wellman, the ASA's First Vice President, claims that "as other Member States transpose the Directive into national law, ASA anticipates the

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## WTO subsidy dispute round-up

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economic viability of exporting U.S. soybeans to the EU will be further eroded, and that a US$ 1 billion market could be lost."

The U.S. agriculture delegation is said to have recently held talks with senior European Commission energy staff in Brussels. According to *Corn&Soybean Digest*, Marc Curtis, the Chairman of the USB, described the talks as "frustrating… . The EU Commission acknowledged they have the results of our research and they indicate that they more or less agree with our numbers. But it's more of a political situation than it is a sound-science situation."

An EU official stated to news publication *Inside U.S. Trade* that the European Commission does not have the authority to suspend the Renewable Energy Directive and must rather ensure the implementation of it. "The Commission has already taken the first steps […] in order to ensure that all member states complete their notification of transposition legislation of the Renewable Energy Directive. It is an important piece of legislation for the EU."

## STUDY: Union of Concerned Scientists release Earth Track study, *Nuclear Power: Still Not Viable Without Subsidies*

In February 2011, just weeks before the beginning of Japan's ongoing nuclear crisis, American-based research group The Union of Concerned Scientist (UCS) released *Nuclear Power: Still Not Viable Without Subsidies*, a report on subsidies to nuclear power in United States, prepared by Doug Koplow, founder of subsidy consultancy Earth Track.

The report lists the full range of subsidies that have been supporting the American nuclear power sector, drawing on a broad review of historical studies, program assessments, industry statements and presentations, as well as government documents. It groups nuclear subsidies by type of plant ownership (public or private), timeframe of support (whether the subsidy is ongoing or has expired), and the specific attribute of nuclear power production the subsidy is intended to support, such as subsidies for land use or waste management.

The research reveals that the nuclear-power industry continues to benefit from more than 30 preferential government subsidies across every stage of the nuclear fuel cycle, despite claims since its inception that it will soon require no further government support.

The most significant subsidies were identified as having four principal objectives: to reduce the cost of capital, labor and land through loan guarantees and tax incentives; to mask the true costs of producing nuclear energy through subsidies to uranium mining and water usage; to shift security and accident risks to the public; and to shift long-term operating risks to the public, such as the storage of radioactive waste. In this way, many subsidies do not even involve cash payments and, according to the report, these hidden subsidies distort market choices and without them investors would favor less risky investments.

The report concludes that the subsidies have often exceeded the average market price of the power produced and that choices about U.S. energy policy must be made with a full understanding of nuclear power's full costs. It puts forward a number of policy recommendations, among which are reducing subsidies to the nuclear power industry and awarding subsidies to low-carbon energy sources on the basis of a competitive bidding process across all competing technologies.

According to the UCS, the Obama administration's proposed budget would provide US$ 36 billion in federal loan guarantees for new reactor constructions, bringing the total amount of nuclear loan guarantees to US$ 58.5 billion. This increased support would "shift even more costs and risks from the industry to taxpayers and ratepayers," they stated.

*Nuclear Power: Still Not Viable Without Subsidies* is available at: http://www.ucsusa.org/nuclear_power/nuclear_power_and_global_warming/nuclear-power-subsidies-report.html

## STUDY: GIZ fact sheets on fuel-price developments in the Arab world

This April, German development agency the GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit) is due to publish a series of *International Fuel Prices Observatory* factsheets, focused on fuel price changes in the Middle East and North Africa (MENA) and the Gulf Cooperation Countries (GCC).

Each factsheet presents a compact two-page summary on fuel prices in each of the 18 countries reviewed, offering information on: fuel price in US$ and local currency; price composition (such as production costs, taxes, fees and margins); pricing policy; a transparency-traffic-signal on price composition and pricing policy; and online information sources. Some only contain very limited data, due to the lack of information about fuel price composition in their respective countries.

In an overview of the collection, the GIZ concluded that, as a result of the revolutions in the region, and amid aspirations for

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## GIZ fact sheets on fuel-price...

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immediate improvements in the standard of living, no upward adjustment of prices can be expected in the short term. In the medium term, however, it suggests that those countries which ultimately develop new social contracts, with increased political participation and transparency, have the potential to correct energy prices such that they reflect their true internal and external costs.

The series also recommends that countries in the region:

- Provide full transparency on the composition of fuel prices and the level of subsidies (per liter) and their pricing principles.
- Introduce flexible pricing mechanisms (following the example of South Africa and regional examples, such as Tunisia and Jordan), even if initially at subsidized prices.
- Gradually increase prices after these reforms have taken place, with broad involvement of relevant social groups and incentives for the better management of energy and transport demand.
- Foster regional dialogue on the pricing of fossil fuels and ways to reduce the economic and social effects of price increases.

The International Fuel Prices Observatory factsheets will soon be available at http://www.gtz.de/en/themen/29957.htm

## STUDY: Measuring Irrigation Subsidies: GSI case study on Southern India

In February 2011, the GSI launched the report *Measuring Irrigation Subsidies in Andhra Pradesh and Southern India: An application of the GSI Method for quantifying subsidies.*

The study uses the GSI's Method for quantifying irrigation subsidies: estimating the cost of providing irrigation water by aggregating capital costs (including interest and depreciation costs), operation and maintenance (O&M) expenses and the opportunity cost of electricity supplied to the irrigation sector. The results are then compared with the benefits of irrigation subsidies, calculated by aggregating the sale of irrigation water, hydropower, fishing rights and water-pollution fees.

The study's stated aim is to provide a starting point for a debate on the use of irrigation subsidies in India. It estimates that subsidies for major irrigation projects in the Andhra Pradesh state were US$ 282 million per year during 2004 to 2008 and, based on these data, subsidies in the four south Indian states (Tamil Nadu, Andhra Pradesh, Karnataka and Kerala) are worth around US$ 580 million per year. It cautions that the full subsidy is likely to be significantly larger, since it was not possible to include small- to medium-size irrigation schemes or the substantial electricity subsidies that are granted to private groundwater irrigators.

The report provides a number of policy suggestions for the Indian central and state governments. In order to reduce consumption levels of irrigated water and the use of free electricity for groundwater abstraction, it suggests an overall reduction in the scale of subsidies. This could be achieved either by increasing water charges marginally or raising revenue generation and cost-recovery levels. It also suggests instituting management systems that would involve the periodic review of subsidy policies.

The study also emphasizes the importance of transparency, allowing all sectors of society to understand the full costs of subsidies and the main beneficiaries. It suggests that if state and national governments were to accurately track their subsidies (in terms of type and financial value), it would allow their full costs and benefits to be compared.

The study *Measuring Irrigation Subsidies in Andhra Pradesh and Southern India: An application of the GSI Method for quantifying subsidies* is available at: http://www.globalsubsidies.org/research/country-case-study-measuring-irrigation-subsidies-india

## EVENT: GSI's awareness-raising seminar on the hidden costs of fuel subsidies in India

On 8 March 2011, the Global Subsidies Initiative held an awareness-raising seminar on fuel subsidies in Mumbai, India. The seminar was organized in cooperation with the Forum of Environmental Journalists of India and brought together leading journalists, civil society groups and energy experts with an aim to explore the economic, environmental and social costs of fuel subsidies.

The seminar featured presentations on a range of topics, including: India's subsidies in a global context; India's pricing policies and subsidies for gasoline, diesel, LPG and kerosene; the links between fuel subsidies and corruption in India; issues connected to the adulteration and diversion of LPG and kerosene; and recommendations on how best to report on subsidy issues in popular media.

It is part of a series of similar outreach events, which aim to raise public awareness about the impacts of fossil-fuel subsidies by ensuring that journalists and civil society groups have the latest information on how these subsidies operate in their countries.

The seminar's agenda and presentations are available at: http://www.globalsubsidies.org/research/gsi-awareness-raising-seminar-hidden-costs-fuel-subsidies-india