

Biofuels Are Not the Answer

An IISD Commentary

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Biofuels are not only costing Canadians an average of \$300 million a year in taxpayer subsidies, they are an inefficient way to combat climate change. Biofuels require subsidies of between 50 and 70 cents per litre to replace a litre of fossil fuel, almost as much as the cost of a litre of regular gasoline.

But aren't biofuels part of our arsenal of weapons to combat climate change? The cost of eliminating a ton of carbon dioxide emissions through the use of biofuels appears to be higher than \$200, perhaps as high as \$400. This is a very expensive way of reducing greenhouse gas emissions.

Purchasing a carbon offset on the European emissions trading market would cost about \$35 a ton and would achieve the same results. The cost of a CO₂ offset on the Chicago Climate Exchange, of which Manitoba Hydro is a founding member, at the end of April was less than US\$2 per ton.

Locking up carbon in Manitoba's forests and soils will also likely be less expensive. Manitoba's clean hydro and renewable energy through wind are also much cheaper. Solar water heating would be cheaper; producing electricity from biomass would be cheaper.

At first glance, biofuels come across as a solution to some of society's greatest challenges: they can reduce greenhouse gases, which lead to climate change (although at a high price); they provide an alternative market for arable farmers; and they help to diversify our supplies of liquid fuels. But the subsidies and mandates that are used to support them create market distortions, which in turn make it more difficult for other, more cost-effective and sustainable energy alternatives to compete.

The International Institute for Sustainable Development has explored the possibilities for the biofuel industry in various countries, including Australia, China, the European Union, Indonesia, Malaysia, Switzerland and the United States. We believe this body of work provides the most comprehensive survey of public policies supporting ethanol and biodiesel.

Over the course of this project, we found that only Brazil could support a viable biofuel industry without taxpayer subsidies. In contrast, we find that Canadian subsidies are expected to cost taxpayers between \$150 million and \$500 million per year until at least 2012.

We wish we could provide more precise numbers. But, despite our best efforts, we were unable to gather data on what volume of biofuels is being produced or consumed.

Why can't Canada achieve at least the same level of transparency as Minnesota? Our neighbour has about the same number of biofuel plants as Canada, yet it provides much more information on the subsidies each plant receives.

The notion that such information is commercially confidential does not fly: taxpayers are funding the industry and they should know what they are getting for their money.

Meanwhile, the growing share of crops being diverted to energy production around the world has undermined global food security, helping to drive up food commodity prices to record levels last year. This may be good news for some grain growers, but it is bad news for livestock producers and retail consumers. Partly driven by demands for ethanol feedstocks, international grain and oilseed prices have gyrated wildly over the past couple of years.

Having fought for years against the evils of European and American agricultural subsidies, Prairie farmers should be concerned about the long-term sustainability of growing feedstock for an industry that can only survive as long as there are subsidies available. What will happen to the industry when the subsidies disappear?

And there will be additional costs that have not yet fully appeared. Ethanol requires specialized transport, storage and distribution infrastructure. Either additional subsidies or higher costs to consumers will be required to support increased consumption, especially in the Maritimes.

Canadian governments have a long history of subsidizing the energy industry and subsidies are not always a bad thing. But if the primary objective of subsidizing and mandating biofuels is to reduce greenhouse gas emissions, there are better ways.

David Runnalls is president and CEO of IISD. This commentary originally appeared in the Winnipeg Free Press on May 2, 2009. A copy of the report, "Biofuels – At what cost? Government support for ethanol and biodiesel in Canada," is available at http://www.iisd.org/pdf/2009/biofuels_subsidies_canada.pdf