

Good for consumers?

What Role for Biofuels?

Tuesday morning, 3 June 2008

Moderator: **Aart de Geus**, Deputy Secretary-General, OECD
Eduardo Leão de Sousa, Executive Director, UNICA, Brazil
José Lopez, Executive Vice-President, Nestlé
Stefan Tangermann, Director, Trade and Agriculture, OECD

Biofuels are in the limelight because of climate change and high oil prices, but as the moderator in this session, **Aart de Geus**, put it, biofuels were good news for some farmers, but what about consumers? Several questions were asked of biofuels: were they really cleaner than conventional fuels? Were they a feasible alternative for transport? Did they reduce CO₂? And what role should public policy play in addressing biofuel production? Also, as Mr de Geus pointed out in this lively session, questions could be raised about all alternative fuels, and what also must be considered was to how to use less fuel of any kind.

“Water and food are more important than energy” asserted **José Lopez**, as he highlighted the relationship between these three vital commodities. Mr Lopez provided a perspective on the often overlooked network effects of biofuel production. He explained that up to 25 litres of oil is required for desalination of 10 cubic metres of water, while 10 cubic meters of water is required to grow crops which can produce between one and five litres of biofuel. While many countries are experiencing major water shortages, their governments are subsidising the water-intensive biofuels industry.

This is not the case in Brazil, as explained by **Eduardo Leão de Sousa**. He defended the environmental impact of Brazil’s sugarcane industry by stating that “90% of Brazil’s sugarcane crop is rain-fed, not irrigated”, and that sugarcane crops for biofuel occupy only 1% of arable land. This is sufficient for ethanol to account for over 50% of fuel sales in Brazil, where there is a mandatory 25% blend of ethanol in all gasoline sold. Mr de Sousa also said that the energy balance of producing ethanol from sugarcane was four and a half times better than using wheat crop, and seven times more efficient than corn-based ethanol.

Some 87% of the sugarcane grown is harvested in the south-central region of Brazil, and 13% in the north-east. Mr de Sousa said that both areas are “well away from the Amazon rainforest”, and that future expansion would occur using degraded pastures.

Brazil’s bioethanol production is not government subsidised, which is essential for economically efficient energy production according to **Stefan Tangermann**. He said that the OECD is concerned with working with governments on biofuel policy, and that they

are not concerned with market forces. Mr Tangermann informed the audience that global subsidies, tariffs and mandates related to biofuels totals 15 billion US dollars per year, and that the value is expected to double by 2015. He suggested that OECD governments consider that biofuels “sound like a great idea” for reasons of energy security (and cutting dependence on imported oil for instance) and public opinion. Lobbyists and pressure to support rural communities also play a role.

Mr Tangermann explained that while biofuels currently appear popular with governments in the OECD, they are rarely profitable, even at high current oil prices. This due to the fact that fossil fuels are still a significant input into the biofuel production process. He suggested that the subsidies be better spent on investment in research and development of second and third generation biofuel technology.

Mr Tangermann also drew attention to the recent OECD report that shows a link between biofuel production and rising global food prices. He said that one third of the expected 10-15% inflation-corrected increase in world food prices could be attributed to the projected increase in biofuel production. Mr de Sousa reiterated that biofuel production in Brazil only accounted for 1% of the agricultural land usage, and questioned whether it could possibly affect food prices. “It would be like the tail wagging the dog” he said. Mr Tangermann responded that in the global market “that’s exactly how it works”.

In questions from the floor, a representative from French Ministry of Agriculture stressed that the available tools to measure impact were insufficient. He contested the OECD analysis that biofuels would contribute to higher food prices – it doesn’t explain the current impact, he said. He defended European subsidies on biofuels, and he regarded 15% increase in inflation-adjusted food prices to be insignificant. Mr Tangermann’s response was that it was up to each government to decide whether the price increase was acceptable or not, while Mr de Sousa commented that production subsidies should be eliminated and that biofuel production should be left to the most effective countries.

A French woman talked about her own production of diesters – a different biofuel which she claims is more efficient than ethanol. She also commented that energy used in transporting ethanol from Brazil should be taken into account. Mr Tangermann responded that diesters were not a profitable alternative or feasible on a global scale.

A participant from the US argued that the entire debate centred too much on the internal combustion engine as the only transportation around, and proposed solar-electric powered cars. Speakers acknowledged that biofuels had limited role and that real alternatives should be further explored.

A representative from Canadian Chambre des Communes wondered if OECD could produce a tool to measure a life-cycle environmental impact of fuels. He mentioned fertilisers required in producing biofuel feedstocks. Mr Tangermann announced that a report on this very idea would be released to the public by the secretary-general in

approximately two weeks. It contains detailed analysis of energy sources taking into account full life-cycle social, economic and environmental impacts.

A gentleman commented that in North America, a 5-litre engine car running on 85% ethanol fuel would require a subsidy of ~\$500 pa. He questioned whether the US economy could withstand this burden. The response from both Mr de Sousa and Mr Tangermann was simply that North American countries could eliminate this problem by abolishing subsidies on biofuels.

A representative from Indian Institute of Finance drew attention to other bio-energy sources such as agri-waste and woodchips that are used in India and do not compete with food production. Over 30% of India's energy supply is bio-energy, which had enabled energy independence to be achieved in several communities. This may be a model that is transferable to other high-population countries.

LT/HEC-JP,SD