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Germany Says U.S. Must Cut Biofuel Subsidies to Help Rainforest

By Jeremy van Loon and Chris Burns

May 6 (Bloomberg) -- The U.S. is encouraging deforestation and pollution by offering incentives for plant-based oils grown in South America, German Environment Minister **Sigmar Gabriel** said, urging the government to stop subsidizing biofuels.

``We're struggling with the U.S. government to cut these subsidies," Gabriel said today in an English-language interview in Berlin.

Palm and soy-bean oil is regularly grown for the international market in former rainforests in countries including Brazil, Gabriel said, adding that the world needs to implement standards to stop the practice.

The U.S. pays as much as a \$1 for each gallon of fuel blended with diesel as part of a push to reduce dependency on oil and gas, according to the **Senate Committee on Finance**. The subsidy applies also to importers who often add small quantities of diesel and ship the resulting mix on to Europe, where more subsidies are available -- a practice known as ``splash and dash."

Governments around the world are considering supplementing oil and gasoline with fuel made from crops as a way to reduce carbon-dioxide emissions. At the same time, transporting the fuel long distances by ship releases CO₂, a greenhouse gas responsible for global warming, into the atmosphere.

``Of course producers are going to use this imported oil if it's cheaper," said Gabriel. ``This is leading to many impacts, on biodiversity, energy and development."

Rising Imports

European Union imports of U.S. B99 biodiesel reached 700,000 tons in the first 10 months of 2007, compared with 90,000 tons for all of 2006, according to the **European Biodiesel Board**, or EBB, a Brussels-based lobby group for the region's producers. The 27-nation EU produced 5 million tons of biodiesel in 2006.

The EBB wants the European Commission, the EU's executive body, to take action against what it says is subsidized dumping of U.S. biodiesel. European producers' margins are shrinking as the cost of feedstock including rapeseed and corn advance and the price of the alternative fuel drops, it says.

``As European producers, we are not responsible for deforestation in Brazil and deforestation in Asia," said **Claus Sauter**, chief executive of German biofuel maker **Verbio AG**.

Even so, the practise is unlikely to stop anytime soon, said **Vince Ng**, an analyst with **Kaf-Seagrott & Campbell Bhd** in Kuala Lumpur.

``The conversion of agricultural land often takes years and as long as there's a subsidy as an incentive, this will keep happening," Ng said in an interview.

Soaring Food Prices

Prices for staple foods such as rice and wheat have reached records as biofuel production has soared. Global food prices surged 57 percent in March from a year earlier, according to the United Nations, and the World Bank warns civil disturbances may be triggered by rising food prices in 33 countries. Rice, the food staple for half the world, has more than doubled in the past year.

UN Secretary-General **Ban Ki-Moon** said on April 29 that the food crisis is an ``unprecedented challenge" which may hurt economic growth and threaten political security. He cited biofuels as one of ``many causes" for the crisis.

Gabriel said biofuels are not responsible for the rising cost of food because only 1.9 percent of agricultural land worldwide is used to make the product. That's less than the annual fluctuation of land used for growing food, he added. Chancellor **Angela Merkel** said earlier this month that growing affluence in the developing world accounted for rising food prices, not biofuel production.

'' The biggest cause of the soaring food prices are the financial speculators, and in this case they truly are locusts," Gerd Sonnfleitner, president of the German farmers association, said at a briefing in Berlin today.

'' The locusts don't care about rice or milk or people. They only care about the fluctuations in the market."

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