World Biofuels Report Ed 1 2011

Market Intelligence

2009 was a hard year for the biofuels sector with low oil prices and reduced demand for transport fuels. Investment was down by just over a third compared to the previous year. Plants were idle or operating at less than capacity. The industry in the EU, US, Malaysia and Indonesia were particularly feeling the effects; both the US and EU were struggling to compete with cheaper fuels from Latin America. The projects that did receive investments mainly used mixed feedstocks and thus could adapt to changing commodity prices and supply shortages. Projects using sugar cane or next generation feedstocks such as jatropha, cellulosics or algae received significant investments.

Petrobras and Amyris made the biggest investments in sugar cane. The former to produce pure and blended fuels for both the domestic and export market, and the latter to create high value products from sugar cane such as farnesene. High value products, rather than biofuels themselves, seemed to drive investment in next generation feedstocks. The three top algae developers in terms of investments have developed a range of high value products derived from algae, and two of the top three cellulosic ethanol producers have disclosed that they are developing other products. These products would provide revenue for developers in the short term before the commercialisation of next generation fuels.

Key investors in next generation biofuel projects are the oil and gas incumbents. The majority of which have covered their bases across all the next generation feedstocks. With the exception of jatropha which has performed poorly in field trials, and subsequently few investments have been made by the industry in it. BP also sold its stake in D1 Oils, a major jatropha developer, last year. A key market for biodiesel producers is likely to be the aviation sector. In 2012 flights entering into and out of the EU have to join the emissions trading scheme. Biofuels are likely to be a part of meeting emissions targets. Other emissions and biofuel blend mandates are planned both compulsory and voluntary. To date eight test flights have been conducted using Biojet derived from petroleum and biomass blends; a further four flights are in the planning stages. Feedstocks used for Biojet include Camelina, algae, jatropha, coconut oil and babassu oil. The military has announced supply investments in biofuels, especially in fuels derived from Camelina.

Brazil is likely to overtake the US and become the biggest ethanol producer again after receiving significant foreign investments last year. The country is also investigating the feasibility of operating biorefineries in countries with duty free trade agreements with the EU and US such as Haiti and El Salvador. Elsewhere in Latin America, Argentina will continue to be strong this year and will continue to export biodiesel to the EU until the implementation of EU sustainability criteria for biofuels. NRG EXPERT feels that the industry is likely to be successful in challenging the EU's criteria for sustainability for 2010 which excludes biodiesel derived from soy beans. Producers of biodiesel from palm oil are likely to use methane capture at their plants to meet the sustainability criteria or will focus on growing domestic demand. Following the implementation of EU anti-dumping legislation on US biodiesel imports, exports of US biodiesel has been down. While there is some evidence that producers are flouting the legislation, this is unlikely to compensate for the legislation. Accusations of the US dumping biodiesel have moved to Australia, where the government may impose emergency anti-dumping rulings in the short term.

Highlights

NRG EXPERT believes that US biodiesel producers will not recover in the short term. US ethanol producers may also be affected by the expiration of subsidies at the end of the year, unless legislation can be passed in time.

Japan will become a growing market for the sector following the expected implementation of new biofuels legislation in the short term. China and India may also become significant biofuel markets.

NRG EXPERT expects the latter part of 2011 and 2012 to be a good year for the sector, with new countries entering the sector on a commercial scale, such as the Philippines, Thailand. The EU market may contact slightly with the removal of subsidies in some key member states, e.g. the Netherlands.

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