

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, cellulose 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 contract slightly with the removal of subsidies in some key member states, e.g. the Netherlands.

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Table of Contents

Published By	2
Copyright Notice.....	2
Table of Contents.....	3
List of Figures.....	7
List of Tables	11
1 Executive Summary.....	15
2 Introduction.....	17
3 First generation biofuels	21
3.1 Ethanol (Bioethanol).....	21
3.1.1 Corn.....	22
3.1.2 Sugar beet.....	23
3.1.3 Sugar cane	23
3.1.4 Sorghum.....	25
3.2 Biodiesel.....	26
3.2.1 Palm oil.....	26
3.2.2 Soy beans (Soya; Soya beans).....	28
3.2.3 Rapeseed.....	28
4 Energy Crops.....	31
4.1.1 Jatropha.....	31
4.1.2 Camelina	35
4.1.3 Croton trees.....	36
4.1.4 Miscanthus (Miscanthus giganteus).....	37
4.1.5 Poplar trees	37
4.1.6 Salicornia (Salicornia Bigelovii, Dwarf saltwort, Dwarf glasswort).....	37
4.1.7 Switch grass	38
5 Waste vegetable oil and tallow	39
5.1.1 Fuel: Biodiesel.....	39
6 Cellulosic biofuels (lignocellulosic biofuels).....	40
6.1 Second generation	40
6.1.1 Fuel: Ethanol	40
7 Algae.....	49
7.1 Third generation biofuel.....	49
7.1.1 Fuel: Diesel substitute	49
8 Biotechnology	54
9 Conversion process.....	56
10 Environmental Impact.....	58
11 Food versus fuel debate	64
12 Market.....	65
12.1 Financials	65
12.2 Companies	71
12.3 Petroleum transport fuels	74
13 Biofuel production.....	78
14 Europe	84
14.1 EU Biofuels Directive.....	85



14.2	Renewable Energy Directive	87
14.3	REACH	90
14.4	Import and export regulations.....	91
14.5	Biofuel production.....	93
	14.5.1 Biodiesel.....	93
14.6	Ethanol	98
14.7	Biofuel consumption	108
14.8	Next generation biofuels.....	109
14.9	Job creation	110
14.10	Factors affecting the market.....	111
14.11	EU competitiveness.....	113
15	European countries	114
	15.1 Austria	114
	15.2 Belgium.....	114
	15.3 Bulgaria	115
	15.4 Denmark.....	116
	15.5 Estonia.....	117
	15.6 Finland.....	117
	15.7 France	117
	15.8 Germany.....	118
	15.9 Ireland.....	124
	15.10 Latvia	125
	15.11 Luxembourg.....	125
	15.12 Netherlands	126
	15.13 Norway	126
	15.14 Poland	126
	15.15 Portugal	127
	15.16 Romania	127
	15.17 Spain.....	127
	15.18 Sweden.....	131
	15.19 Switzerland.....	134
	15.20 Turkey.....	136
	15.21 UK.....	137
16	USA	138
	16.1 Incentives	138
	16.2 Renewable Fuel Standard.....	139
	16.3 Food, Conservation, and Energy Act of 2008 (Farm Bill 2008)	142
	16.4 State legislation	142
	16.5 Biofuel imports and exports.....	144
	16.6 Market.....	145
	16.7 Next generation biofuels.....	156
	16.8 Economic downturn.....	161
	16.9 Animal feed.....	162
	16.10 Biodiesel	163
17	Brazil.....	171
	17.1 Sugar production	172



17.2	Sugar cane production	173
17.3	Ethanol plants	173
17.4	Ethanol	176
17.5	Blending mandates	179
17.6	Export market	179
17.7	Biodiesel	181
17.8	Investment	183
17.9	Foreign Investment	185
18	Latin America	186
18.1	Argentina	186
18.2	Colombia	191
18.3	Honduras	192
18.4	Paraguay	194
18.5	Peru	195
18.6	Uruguay	195
19	North America	198
19.1	Canada	198
19.2	Biodiesel	204
19.3	Ethanol	204
19.4	Mexico	205
20	Oceania	208
20.1	Australia	208
20.2	New Zealand	213
21	ASIA	222
21.1	China	222
21.2	Chinese Taiwan	226
21.3	India	226
21.4	Indonesia	231
21.5	Japan	234
21.6	Korea, South	236
21.7	Malaysia	236
21.8	Pakistan	238
21.9	Thailand	239
21.10	The Philippines	248
21.11	Vietnam	251
22	Russia and the CIS countries	252
22.1	Russia	252
22.2	Ukraine	252
22.3	Other countries	253
23	Africa	254
23.1	South Africa	254
23.2	Sudan	255
23.3	Other countries	255
	23.3.1 Kenya	255
	23.3.2 Mozambique	255
	23.3.3 Tanzania	255

24	Aviation sector	256
24.1	Carbon emissions.....	256
24.2	Bio-jet fuels.....	257
24.3	Air force and the military.....	263
25	Oil & Gas Involvement.....	266
26	Biofuel targets, subsidies and incentives	279
27	Conversion units.....	297
28	Acknowledgements	298

List of Figures

- Figure 2.1. Development of biofuels
- Figure 2.2. Products from biofuel feedstocks
- Figure 3.1. World corn price projections, US \$ per tonne
- Figure 3.2. World sugar price projections, US \$ per tonne
- Figure 3.3. Fuel yield for biofuel feedstocks, gasoline equivalent, gallons per acre
- Figure 3.4. World vegetable oil prices, US \$ per tonne
- Figure 3.5. World oil seed prices, US \$ per tonne
- Figure 4.1. Jatropha curcas
- Figure 4.2. Scale of jatropha projects (hectares) and number of projects, 2008 and 2015
- Figure 4.3. Camelina*
- Figure 4.4. Salicornia (Salicornia Bigelovi)
- Figure 6.1. Breakdown of operating costs for a cellulosic plant using enzyme pre-treatment
- Figure 6.2. Status of cellulosic ethanol plants as of February 2010
- Figure 6.3. Adjusted feedstock potential for cellulosic feedstocks
- Figure 6.4. Planned development of cellulosic ethanol capacity by the top ten developers, million litres
- Figure 7.1. Microalgae and macroalgae. Microalgae (left) Macroalgae (right)
- Figure 8.1. Role of biotechnology in biofuel production
- Figure 9.1. Levelised cost of energy for transport fuels, US \$ per litre
- Figure 9.2. Conversion pathways to produce biofuels
- Figure 10.1. Greenhouse gas savings of biofuels by feedstock and country of origin, % - Biodiesel
- Figure 10.2. Greenhouse gas savings of biofuels by feedstock and country of origin, % - Ethanol and Biogas
- Figure 10.3. Future research challenges for assessing the environmental impacts of biofuels
- Figure 10.4. Global average water footprint for ethanol feedstocks, m³/GJ
- Figure 10.5. Global average water footprint for biodiesel feedstocks, m³/GJ
- Figure 12.1. New investment by technology, 2009, US \$billion
- Figure 12.2. Global Asset Financing (GAF), US \$ million, Q1 2009 – Q2 2010
- Figure 12.3. Global Asset Financing (GAF) per biofuel project, US \$ million, Q1 2009 – Q2 2010
- Figure 12.4. Biofuels New Build Asset Investment Waves, US \$ billion
- Figure 12.5. Investments in terms of feedstocks, US \$ million, 2009
- Figure 12.6. VC/PE investments in biofuels, US \$ million, Q1 2009 – Q2 2010
- Figure 12.7. Average VC/PE investments in biofuels per deal, US \$ million, Q1 2009 – Q2 2010
- Figure 12.8. Top ten companies in 2009 in terms of investments, US \$ million

- Figure 12.9. Corporate and government R&D investment by technology, 2009, and total growth on 2008, US \$ billion
- Figure 12.10. Average crude oil import costs, US \$/barrel*
- Figure 12.11. Short term oil price forecast, West Texas Spot price, US\$ per barrel
- Figure 12.12. DOE EIA World oil price projections, US \$ per barrel
- Figure 14.1. Biofuel chain and supply measures in the EU
- Figure 14.2. Proportion of biofuel meeting sustainability standards
- Figure 14.3. Idle and used biodiesel capacity in the EU, million litres
- Figure 14.4. Average installed capacity of biodiesel plants in the EU, million litres
- Figure 14.5. Biodiesel production in the top six EU countries, million litres
- Figure 14.6. Market share of biodiesel production in the top six EU countries, %, 2009 (left) and 2011 (right)
- Figure 14.7. Feedstock used for biodiesel production, thousand tonnes
- Figure 14.8. Idle and used ethanol capacity in the EU, million litres
- Figure 14.9. Average installed capacity of ethanol plants in the EU, million litres
- Figure 14.10. Ethanol production in the top six EU countries, million litres
- Figure 14.11. Market share of ethanol production in the top six EU countries, %, 2009 (left) and 2011 (right)
- Figure 14.12. Balance of ethanol trade, net exporters +and net importers -, million litres
- Figure 14.13. Feedstock used for ethanol production, thousand tonnes
- Figure 14.14. Fate of ethanol produced in the EU, million litres
- Figure 14.15. Imports of biofuels into the EU, million litres
- Figure 14.16. Production of DDGS during ethanol production in the EU, thousand tonnes
- Figure 14.17. Consumption of biofuels in the EU, 2006 - 2011
- Figure 14.18. Biodiesel consumption in the EU, 2009 - 2011, million litres
- Figure 14.19. Ethanol consumption in the EU, 2009 - 2011, million litres
- Figure 15.1. Projections on the production of biodiesel and ethanol in Bulgaria, 2008 – 2020
- Figure 15.2. Standard greenhouse gas emissions for biofuels, established by the UFOP in Germany, gCO₂eq per MJ, %
- Figure 15.3. Ethanol market in Sweden, thousand litres
- Figure 15.4. Biodiesel market in Sweden, thousand litres
- Figure 15.5. Quantity of feedstock used in biofuel production in Sweden, thousand tonnes
- Figure 15.6. Biodiesel consumption in Switzerland, million litres
- Figure 15.7. Ethanol consumption in Switzerland, million litres
- Figure 16.1. Renewable fuel volume obligation as established in the RFS program, billion litres
- Figure 16.2. Blending mandates in the US, launch dates
- Figure 16.3. Historical US ethanol imports, million litres

- Figure 16.4. Growth of the ethanol industry in the US, billion litres
- Figure 16.5. Average production capacity of ethanol plants in operation in the US, million litres
- Figure 16.6. Top ten states for ethanol production, million litres
- Figure 16.7. US Ethanol biorefinery locations
- Figure 16.8. Top ten ethanol producers in terms of installed capacity, million litres
- Figure 16.9. Breakdown of funding for advanced biorefinery projects, December 2009, US \$ million
- Figure 16.10. Fate of corn harvested for ethanol production in the USA, 2009
- Figure 16.11. Breakdown of feedstocks for biodiesel plants in operation and under construction in the US, %
- Figure 16.12. Breakdown of biodiesel production costs
- Figure 16.13. Top ten biodiesel manufacturers in the US, million litres
- Figure 16.14. Production and consumption of biodiesel in the US, million litres
- Figure 17.1. Sugar producing regions and ethanol plants in Brazil
- Figure 17.2. Sugar cane and sugar production in Brazil for each crop harvest, million tonnes
- Figure 17.3. Balance of cane products and by-products, 1,000 kg of planted cane
- Figure 17.4. Ethanol production in Brazil for each crop harvest, million litres
- Figure 17.5. Average price of Brazilian ethanol exports, US \$ per litre
- Figure 18.1. Anticipated fate of biodiesel produced by the ten largest biodiesel producers by installed capacity, million litres, 2010
- Figure 18.2. Map showing biofuel production and blending terminal locations in Argentina
- Figure 18.3. Supply commitments for ethanol producers for the Argentinian market from the government, million litres, 2010
- Figure 18.4. Supply commitments for biodiesel producers for the Argentinian market from the government, million litres, 2010
- Figure 18.5. Fate of palm oil produced in Honduras, tonnes
- Figure 18.6. Development of the biofuel market in Paraguay, million litres
- Figure 18.7. Quantity of feedstock used in biofuel production in Uruguay, tonnes
- Figure 19.1. Ethanol and biodiesel plants in Canadian provinces, million litres
- Figure 19.2. Feedstocks used by Canadian biofuel plants, million litres
- Figure 19.3. Map of potential areas for biofuel feedstock cultivation in Mexico
- Figure 20.1. Ethanol production capacity in operation in Australia, million litres
- Figure 20.2. Biodiesel production capacity in operation in Australia, million litres
- Figure 20.3. Breakdown of biodiesel sold on the Australian market, million litres
- Figure 21.1. Fuel ethanol plants in China
- Figure 21.2. Sugar cane feedstocks in India, thousand tonnes
- Figure 21.3. Production and consumption of ethanol in India, 2006 – 2011, million litres
- Figure 21.4. Breakdown of fate of biodiesel produced by manufacturers in Indonesia, million litres

- Figure 21.5. Map of installed ethanol plants in Indonesia
- Figure 21.6. Map of installed biodiesel plants in Indonesia
- Figure 21.7. Annual and forecast of crude palm oil production in Malaysia, million tonnes
- Figure 21.8. Main feedstock used to produce ethanol in Thailand, thousand litres per day
- Figure 21.9. Anticipated production of ethanol from cassava and molasses in Thailand, million litres per day
- Figure 21.10. Prices of ethanol blends and gasoline in Thailand, 2005 – 2009, THB per litre
- Figure 21.11. Prices of biodiesel blends and gasoline in Thailand, 2005 – 2009, THB per litre
- Figure 21.12. Feedstocks used in biodiesel plants in Thailand
- Figure 21.13. Projections on domestic demand for biodiesel in Thailand, million litres
- Figure 21.14. Breakdown of manufacturers of biodiesel in Thailand, thousand litres per day
- Figure 21.15. Projections of idle and operating ethanol capacity in the Philippines, million litres
- Figure 21.16. Projections of ethanol production and imports in the Philippines, million litres
- Figure 21.17. Projections of biodiesel production and consumption in the Philippines, million litres
- Figure 24.1. Timeline of proposed legislation and voluntary targets for the aviation sector
- Figure 24.2. Aviation fuel demand and supply scenarios
- Figure 24.3. CAAFI R&D roadmap for biofuel feedstocks

List of Tables

Table 2.1.	Production processes for first generation biofuels
Table 3.1.	Advantages and disadvantages of ethanol compared to gasoline
Table 3.2.	Yields of ethanol per feedstock
Table 3.3.	Monthly prices for corn, US \$ per tonne
Table 3.4.	Products from sugar cane production
Table 3.5.	Monthly sugar prices, US \$ cents per pound
Table 3.6.	Advantages and disadvantages of biodiesel compared to petroleum diesel
Table 3.7.	Monthly prices for feedstocks for the production of biodiesel, US \$ per tonne
Table 4.1.	By-products from jatropha
Table 4.2.	The advantages and disadvantages of jatropha
Table 4.3.	Key companies involved in jatropha projects
Table 4.4.	Main developers of biodiesel from Camelina
Table 6.1.	Cellulosic waste materials of food crops
Table 6.2.	Top cellulosic ethanol manufacturers in terms of installed capacity in 2009
Table 6.3.	The advantages and disadvantages of cellulosic ethanol as an alternative to first-generation biofuels feedstocks on the market
Table 7.1.	The biodiesel yield per acre for different feedstocks
Table 7.2.	Production capacity for algae biofuel developers, million litres, 2010 and 2012
Table 7.3.	Products derived from algae
Table 7.4.	The advantages and disadvantages of algae as an alternative to first-generation biofuels feedstocks on the market
Table 9.1.	Description of Conversion Pathway
Table 10.1.	Emissions Lifecycle for each Feedstock
Table 10.2.	How green are biofuels?
Table 12.1.	Business model of the top ten biofuel companies in terms of investments last year
Table 12.2.	Estimates of subsidies for different energy sources
Table 12.3.	Transport fuel prices and taxes per litre, June 2010
Table 12.4.	Transport fuel prices, May 2010, US dollars per litre
Table 12.5.	Relationships between crude oil, gasoline, ethanol and break-even corn prices
Table 12.6.	Average oil price projections, US \$ per barrel
Table 13.1.	Biodiesel production, million litres
Table 13.2.	Ethanol production, million litres
Table 13.3.	Biodiesel projections
Table 13.4.	Bioethanol projections
Table 14.1.	Energy content of marginal transport fuel – pure and blends, MJ/litre
Table 14.2.	Energy content of marginal transport fuel blends, MJ/litre

Table 14.3.	EU Member States goals for the use of biofuels as transportation fuel, % of total fuel use
Table 14.4.	Road transportation fuels consumption in the EU, 2006 – 2011, ktoe
Table 14.5.	Renewable Energy Directive targets
Table 14.6.	Greenhouse gas emissions for biofuel feedstocks according to the European Commission
Table 14.7.	Milestones for the biofuel industry in the EU
Table 14.8.	REACH costs
Table 14.9.	Development of biodiesel plants in the EU, thousand litres
Table 14.10.	EU 2008 and 2009 biodiesel capacity estimates
Table 14.11.	Production capacity of the main biodiesel producers in Europe
Table 14.12.	Development of ethanol plants in the EU, million litres
Table 14.13.	Production capacity of the main ethanol producers, 2010
Table 14.14.	Ethanol plants in the EU, million litres, March 2010
Table 14.15.	Advanced biofuel plants in the EU
Table 14.16.	Jobs created by the sector in key European countries
Table 15.1.	Fuel Taxes
Table 15.2.	Breakdown of transport fuels in Bulgaria
Table 15.3.	Quota for Biodiesel and Bioethanol from 2003-2010
Table 15.4.	Quotas and taxes for biofuels in Germany
Table 15.5.	Tax exemptions in € per litre of biofuels
Table 15.6.	Land use criteria for sustainable biofuels in Germany
Table 15.7.	Energy tax on pure biodiesels, € per litre
Table 15.8.	Consumption of biofuels in Germany, thousand tonnes
Table 15.9.	Average price at the filling station for biodiesel and diesel in Germany, June 2010
Table 15.10.	Biodiesel plants in operation in Germany, end 2009
Table 15.11.	Incentives for Irish farmers producing energy crops
Table 15.12.	Financial support for production facilities
Table 15.13.	Abengoa Bioenergy global presence
Table 15.14.	Biodiesel plants in operation, under construction and planned in Spain
Table 15.15.	Ethanol plants in Spain, excluding Abengoa's plants
Table 15.16.	Ethanol plants in Sweden
Table 15.17.	Biodiesel plants in Sweden
Table 15.18.	Planned biodiesel projects in Switzerland, million litres
Table 16.1.	History of ethanol subsidy legislation in the US
Table 16.2.	State fuel taxes
Table 16.3.	Biofuel blends and car manufacturing compatibility in the US
Table 16.4.	Ethanol plants in the USA, July 2010
Table 16.5.	Business structure of the top 5 ethanol producers in the US

Table 16.6.	US cellulosic ethanol projects under development and construction
Table 16.7.	Awardees of US Department of Energy and Department of Agriculture funding, December 2009
Table 16.8.	Valero Renewables' ethanol plants
Table 16.9.	DDGS produced for a 20 million gallon (91 million litres) plant using different feedstocks
Table 16.10.	Business models for the top five biodiesel producers in the US
Table 16.11.	Biodiesel plants in the USA, July 2010
Table 17.1.	Production costs for ethanol in the USA, Germany and Brazil, € per 1,000 litres
Table 17.2.	Installed biofuel capacity and targets in Brazil
Table 17.3.	Top ten sugar cane facilities in Sao Paulo State for the 2008/2009 harvest
Table 17.4.	Key Companies using SCA Brazil Ethanol brokerage
Table 17.5.	Biodiesel plants in operation in Brazil
Table 17.6.	Investment in renewable energies
Table 17.7.	Ethanol plants owned by Cosan in Brazil
Table 18.1.	Argentina Renewables' list of biodiesel plants in operation, large scale
Table 18.2.	Ethanol plants in operation in Colombia
Table 18.3.	Biodiesel plants in operation in Colombia
Table 18.4.	Top five biodiesel plants in operation in Honduras
Table 19.1.	Blending mandates in Canadian provinces, target dates
Table 19.2.	Incentives for biofuels in Canadian provinces
Table 19.3.	Federal programmes to promote a domestic renewable fuels industry in Canada
Table 19.4.	Ethanol plants in operation or under construction in Canada
Table 19.5.	Biodiesel plants in operation or under construction in Canada
Table 19.6.	Tax exemptions for E10 by Canadian province
Table 19.7.	Ethanol pilot project in Mexico
Table 20.1.	Biodiesel plants in Australia, January 2010
Table 20.2.	Ethanol plants in operation in Australia, January 2010
Table 20.3.	Biofuels Excise Rates for Australia
Table 20.4.	Effective fuel tax rates for alternative fuels in Australia
Table 20.5.	Blending mandates in Australia, target dates
Table 20.6.	Second generation Biofuels Research and Development Programme projects in Australia
Table 20.7.	Leading biofuel players in New Zealand, as of August 2009
Table 21.1.	China investment in renewable energy markets
Table 21.2.	Ethanol plants in operation in China, million litres
Table 21.3.	Cities with the E10 blend mandate in China
Table 21.4.	Cost analysis of using different feedstocks for ethanol using 2006 prices in China
Table 21.5.	Major biodiesel facilities in China

Table 21.6.	Project financing for biofuel projects in India
Table 21.7.	Blending mandate for biodiesel in Indonesia
Table 21.8.	Blending mandate for ethanol in Indonesia
Table 21.9.	Biodiesel projects in operation in Malaysia
Table 21.10.	Fifteen year Renewable Energy Development Plans for biofuels in Thailand, million litres per day
Table 21.11.	Ethanol plants in Thailand, March 2010
Table 21.12.	Breakdown of retail prices for B2 and B5 biodiesel in Thailand as of May 2010
Table 21.13.	Biodiesel plants in operation in Thailand, March 2010
Table 21.14.	Comparison different feedstocks for ethanol in the Philippines
Table 24.1.	Aviation ground rules for 2nd and 3rd generation biomass fuelling
Table 24.2.	US military supply contracts for biofuels
Table 24.3.	Biofuel manufacturers with contracts to develop or supply fuel for the aviation sector
Table 25.1.	Oil and gas company investments in biofuels
Table 26.1.	Biofuel targets, subsidies and incentives for biofuels for EU member states
Table 26.2.	Biofuel targets, subsidies and incentives outside the EU

Table of Contents

Published By	2
Copyright Notice.....	2
Table of Contents.....	3
List of Figures.....	7
List of Tables	11
1 Executive Summary.....	15
2 Introduction.....	17
3 First generation biofuels	21
3.1 Ethanol (Bioethanol).....	21
3.1.1 Corn.....	22
3.1.2 Sugar beet.....	23
3.1.3 Sugar cane.....	23
3.1.4 Sorghum.....	25
3.2 Biodiesel.....	26
3.2.1 Palm oil.....	26
3.2.2 Soy beans (Soya; Soya beans).....	28
3.2.3 Rapeseed.....	28
4 Energy Crops.....	31
4.1.1 Jatropha.....	31
4.1.2 Camelina	35
4.1.3 Croton trees.....	36
4.1.4 Miscanthus (Miscanthus giganteus).....	37
4.1.5 Poplar trees	37
4.1.6 Salicornia (Salicornia Bigelovii, Dwarf saltwort, Dwarf glasswort).....	37
4.1.7 Switch grass	38
5 Waste vegetable oil and tallow	39
5.1.1 Fuel: Biodiesel	39
6 Cellulosic biofuels (lignocellulosic biofuels).....	40
6.1 Second generation	40
6.1.1 Fuel: Ethanol	40
7 Algae.....	49
7.1 Third generation biofuel.....	49
7.1.1 Fuel: Diesel substitute	49
8 Biotechnology	54
9 Conversion process.....	56
10 Environmental Impact.....	58
11 Food versus fuel debate	64
12 Market.....	65
12.1 Financials	65
12.2 Companies	71
12.3 Petroleum transport fuels	74
13 Biofuel production.....	78
14 Europe	84
14.1 EU Biofuels Directive.....	85



14.2	Renewable Energy Directive	87
14.3	REACH	90
14.4	Import and export regulations.....	91
14.5	Biofuel production.....	93
14.5.1	Biodiesel.....	93
14.6	Ethanol	98
14.7	Biofuel consumption	108
14.8	Next generation biofuels.....	109
14.9	Job creation	110
14.10	Factors affecting the market.....	111
14.11	EU competitiveness.....	113
15	European countries	114
15.1	Austria	114
15.2	Belgium.....	114
15.3	Bulgaria	115
15.4	Denmark	116
15.5	Estonia.....	117
15.6	Finland.....	117
15.7	France	117
15.8	Germany	118
15.9	Ireland.....	124
15.10	Latvia	125
15.11	Luxembourg.....	125
15.12	Netherlands	126
15.13	Norway	126
15.14	Poland	126
15.15	Portugal	127
15.16	Romania	127
15.17	Spain.....	127
15.18	Sweden.....	131
15.19	Switzerland.....	134
15.20	Turkey.....	136
15.21	UK.....	137
16	USA	138
16.1	Incentives	138
16.2	Renewable Fuel Standard.....	139
16.3	Food, Conservation, and Energy Act of 2008 (Farm Bill 2008)	142
16.4	State legislation	142
16.5	Biofuel imports and exports.....	144
16.6	Market.....	145
16.7	Next generation biofuels.....	156
16.8	Economic downturn	161
16.9	Animal feed.....	162
16.10	Biodiesel	163
17	Brazil.....	171
17.1	Sugar production	172



17.2	Sugar cane production	173
17.3	Ethanol plants	173
17.4	Ethanol	176
17.5	Blending mandates	179
17.6	Export market	179
17.7	Biodiesel	181
17.8	Investment	183
17.9	Foreign Investment	185
18	Latin America	186
18.1	Argentina	186
18.2	Colombia	191
18.3	Honduras	192
18.4	Paraguay	194
18.5	Peru	195
18.6	Uruguay	195
19	North America	198
19.1	Canada	198
19.2	Biodiesel	204
19.3	Ethanol	204
19.4	Mexico	205
20	Oceania	208
20.1	Australia	208
20.2	New Zealand	213
21	ASIA	222
21.1	China	222
21.2	Chinese Taiwan	226
21.3	India	226
21.4	Indonesia	231
21.5	Japan	234
21.6	Korea, South	236
21.7	Malaysia	236
21.8	Pakistan	238
21.9	Thailand	239
21.10	The Philippines	248
21.11	Vietnam	251
22	Russia and the CIS countries	252
22.1	Russia	252
22.2	Ukraine	252
22.3	Other countries	253
23	Africa	254
23.1	South Africa	254
23.2	Sudan	255
23.3	Other countries	255
	23.3.1 Kenya	255
	23.3.2 Mozambique	255
	23.3.3 Tanzania	255

24	Aviation sector	256
24.1	Carbon emissions.....	256
24.2	Bio-jet fuels.....	257
24.3	Air force and the military.....	263
25	Oil & Gas Involvement.....	266
26	Biofuel targets, subsidies and incentives	279
27	Conversion units.....	297
28	Acknowledgements	298

List of Figures

- Figure 2.1. Development of biofuels
- Figure 2.2. Products from biofuel feedstocks
- Figure 3.1. World corn price projections, US \$ per tonne
- Figure 3.2. World sugar price projections, US \$ per tonne
- Figure 3.3. Fuel yield for biofuel feedstocks, gasoline equivalent, gallons per acre
- Figure 3.4. World vegetable oil prices, US \$ per tonne
- Figure 3.5. World oil seed prices, US \$ per tonne
- Figure 4.1. Jatropha curcas
- Figure 4.2. Scale of jatropha projects (hectares) and number of projects, 2008 and 2015
- Figure 4.3. Camelina*
- Figure 4.4. Salicornia (Salicornia Bigelovi)
- Figure 6.1. Breakdown of operating costs for a cellulosic plant using enzyme pre-treatment
- Figure 6.2. Status of cellulosic ethanol plants as of February 2010
- Figure 6.3. Adjusted feedstock potential for cellulosic feedstocks
- Figure 6.4. Planned development of cellulosic ethanol capacity by the top ten developers, million litres
- Figure 7.1. Microalgae and macroalgae. Microalgae (left) Macroalgae (right)
- Figure 8.1. Role of biotechnology in biofuel production
- Figure 9.1. Levelised cost of energy for transport fuels, US \$ per litre
- Figure 9.2. Conversion pathways to produce biofuels
- Figure 10.1. Greenhouse gas savings of biofuels by feedstock and country of origin, % - Biodiesel
- Figure 10.2. Greenhouse gas savings of biofuels by feedstock and country of origin, % - Ethanol and Biogas
- Figure 10.3. Future research challenges for assessing the environmental impacts of biofuels
- Figure 10.4. Global average water footprint for ethanol feedstocks, m³/GJ
- Figure 10.5. Global average water footprint for biodiesel feedstocks, m³/GJ
- Figure 12.1. New investment by technology, 2009, US \$billion
- Figure 12.2. Global Asset Financing (GAF), US \$ million, Q1 2009 – Q2 2010
- Figure 12.3. Global Asset Financing (GAF) per biofuel project, US \$ million, Q1 2009 – Q2 2010
- Figure 12.4. Biofuels New Build Asset Investment Waves, US \$ billion
- Figure 12.5. Investments in terms of feedstocks, US \$ million, 2009
- Figure 12.6. VC/PE investments in biofuels, US \$ million, Q1 2009 – Q2 2010
- Figure 12.7. Average VC/PE investments in biofuels per deal, US \$ million, Q1 2009 – Q2 2010
- Figure 12.8. Top ten companies in 2009 in terms of investments, US \$ million

- Figure 12.9. Corporate and government R&D investment by technology, 2009, and total growth on 2008, US \$ billion
- Figure 12.10. Average crude oil import costs, US \$/barrel*
- Figure 12.11. Short term oil price forecast, West Texas Spot price, US\$ per barrel
- Figure 12.12. DOE EIA World oil price projections, US \$ per barrel
- Figure 14.1. Biofuel chain and supply measures in the EU
- Figure 14.2. Proportion of biofuel meeting sustainability standards
- Figure 14.3. Idle and used biodiesel capacity in the EU, million litres
- Figure 14.4. Average installed capacity of biodiesel plants in the EU, million litres
- Figure 14.5. Biodiesel production in the top six EU countries, million litres
- Figure 14.6. Market share of biodiesel production in the top six EU countries, %, 2009 (left) and 2011 (right)
- Figure 14.7. Feedstock used for biodiesel production, thousand tonnes
- Figure 14.8. Idle and used ethanol capacity in the EU, million litres
- Figure 14.9. Average installed capacity of ethanol plants in the EU, million litres
- Figure 14.10. Ethanol production in the top six EU countries, million litres
- Figure 14.11. Market share of ethanol production in the top six EU countries, %, 2009 (left) and 2011 (right)
- Figure 14.12. Balance of ethanol trade, net exporters +and net importers -, million litres
- Figure 14.13. Feedstock used for ethanol production, thousand tonnes
- Figure 14.14. Fate of ethanol produced in the EU, million litres
- Figure 14.15. Imports of biofuels into the EU, million litres
- Figure 14.16. Production of DDGS during ethanol production in the EU, thousand tonnes
- Figure 14.17. Consumption of biofuels in the EU, 2006 - 2011
- Figure 14.18. Biodiesel consumption in the EU, 2009 - 2011, million litres
- Figure 14.19. Ethanol consumption in the EU, 2009 - 2011, million litres
- Figure 15.1. Projections on the production of biodiesel and ethanol in Bulgaria, 2008 – 2020
- Figure 15.2. Standard greenhouse gas emissions for biofuels, established by the UFOP in Germany, gCO₂eq per MJ, %
- Figure 15.3. Ethanol market in Sweden, thousand litres
- Figure 15.4. Biodiesel market in Sweden, thousand litres
- Figure 15.5. Quantity of feedstock used in biofuel production in Sweden, thousand tonnes
- Figure 15.6. Biodiesel consumption in Switzerland, million litres
- Figure 15.7. Ethanol consumption in Switzerland, million litres
- Figure 16.1. Renewable fuel volume obligation as established in the RFS program, billion litres
- Figure 16.2. Blending mandates in the US, launch dates
- Figure 16.3. Historical US ethanol imports, million litres

- Figure 16.4. Growth of the ethanol industry in the US, billion litres
- Figure 16.5. Average production capacity of ethanol plants in operation in the US, million litres
- Figure 16.6. Top ten states for ethanol production, million litres
- Figure 16.7. US Ethanol biorefinery locations
- Figure 16.8. Top ten ethanol producers in terms of installed capacity, million litres
- Figure 16.9. Breakdown of funding for advanced biorefinery projects, December 2009, US \$ million
- Figure 16.10. Fate of corn harvested for ethanol production in the USA, 2009
- Figure 16.11. Breakdown of feedstocks for biodiesel plants in operation and under construction in the US, %
- Figure 16.12. Breakdown of biodiesel production costs
- Figure 16.13. Top ten biodiesel manufacturers in the US, million litres
- Figure 16.14. Production and consumption of biodiesel in the US, million litres
- Figure 17.1. Sugar producing regions and ethanol plants in Brazil
- Figure 17.2. Sugar cane and sugar production in Brazil for each crop harvest, million tonnes
- Figure 17.3. Balance of cane products and by-products, 1,000 kg of planted cane
- Figure 17.4. Ethanol production in Brazil for each crop harvest, million litres
- Figure 17.5. Average price of Brazilian ethanol exports, US \$ per litre
- Figure 18.1. Anticipated fate of biodiesel produced by the ten largest biodiesel producers by installed capacity, million litres, 2010
- Figure 18.2. Map showing biofuel production and blending terminal locations in Argentina
- Figure 18.3. Supply commitments for ethanol producers for the Argentinan market from the government, million litres, 2010
- Figure 18.4. Supply commitments for biodiesel producers for the Argentinan market from the government, million litres, 2010
- Figure 18.5. Fate of palm oil produced in Honduras, tonnes
- Figure 18.6. Development of the biofuel market in Paraguay, million litres
- Figure 18.7. Quantity of feedstock used in biofuel production in Uruguay, tonnes
- Figure 19.1. Ethanol and biodiesel plants in Canadian provinces, million litres
- Figure 19.2. Feedstocks used by Canadian biofuel plants, million litres
- Figure 19.3. Map of potential areas for biofuel feedstock cultivation in Mexico
- Figure 20.1. Ethanol production capacity in operation in Australia, million litres
- Figure 20.2. Biodiesel production capacity in operation in Australia, million litres
- Figure 20.3. Breakdown of biodiesel sold on the Australian market, million litres
- Figure 21.1. Fuel ethanol plants in China
- Figure 21.2. Sugar cane feedstocks in India, thousand tonnes
- Figure 21.3. Production and consumption of ethanol in India, 2006 – 2011, million litres
- Figure 21.4. Breakdown of fate of biodiesel produced by manufacturers in Indonesia, million litres

- Figure 21.5. Map of installed ethanol plants in Indonesia
- Figure 21.6. Map of installed biodiesel plants in Indonesia
- Figure 21.7. Annual and forecast of crude palm oil production in Malaysia, million tonnes
- Figure 21.8. Main feedstock used to produce ethanol in Thailand, thousand litres per day
- Figure 21.9. Anticipated production of ethanol from cassava and molasses in Thailand, million litres per day
- Figure 21.10. Prices of ethanol blends and gasoline in Thailand, 2005 – 2009, THB per litre
- Figure 21.11. Prices of biodiesel blends and gasoline in Thailand, 2005 – 2009, THB per litre
- Figure 21.12. Feedstocks used in biodiesel plants in Thailand
- Figure 21.13. Projections on domestic demand for biodiesel in Thailand, million litres
- Figure 21.14. Breakdown of manufacturers of biodiesel in Thailand, thousand litres per day
- Figure 21.15. Projections of idle and operating ethanol capacity in the Philippines, million litres
- Figure 21.16. Projections of ethanol production and imports in the Philippines, million litres
- Figure 21.17. Projections of biodiesel production and consumption in the Philippines, million litres
- Figure 24.1. Timeline of proposed legislation and voluntary targets for the aviation sector
- Figure 24.2. Aviation fuel demand and supply scenarios
- Figure 24.3. CAAFI R&D roadmap for biofuel feedstocks

List of Tables

Table 2.1.	Production processes for first generation biofuels
Table 3.1.	Advantages and disadvantages of ethanol compared to gasoline
Table 3.2.	Yields of ethanol per feedstock
Table 3.3.	Monthly prices for corn, US \$ per tonne
Table 3.4.	Products from sugar cane production
Table 3.5.	Monthly sugar prices, US \$ cents per pound
Table 3.6.	Advantages and disadvantages of biodiesel compared to petroleum diesel
Table 3.7.	Monthly prices for feedstocks for the production of biodiesel, US \$ per tonne
Table 4.1.	By-products from jatropha
Table 4.2.	The advantages and disadvantages of jatropha
Table 4.3.	Key companies involved in jatropha projects
Table 4.4.	Main developers of biodiesel from Camelina
Table 6.1.	Cellulosic waste materials of food crops
Table 6.2.	Top cellulosic ethanol manufacturers in terms of installed capacity in 2009
Table 6.3.	The advantages and disadvantages of cellulosic ethanol as an alternative to first-generation biofuels feedstocks on the market
Table 7.1.	The biodiesel yield per acre for different feedstocks
Table 7.2.	Production capacity for algae biofuel developers, million litres, 2010 and 2012
Table 7.3.	Products derived from algae
Table 7.4.	The advantages and disadvantages of algae as an alternative to first-generation biofuels feedstocks on the market
Table 9.1.	Description of Conversion Pathway
Table 10.1.	Emissions Lifecycle for each Feedstock
Table 10.2.	How green are biofuels?
Table 12.1.	Business model of the top ten biofuel companies in terms of investments last year
Table 12.2.	Estimates of subsidies for different energy sources
Table 12.3.	Transport fuel prices and taxes per litre, June 2010
Table 12.4.	Transport fuel prices, May 2010, US dollars per litre
Table 12.5.	Relationships between crude oil, gasoline, ethanol and break-even corn prices
Table 12.6.	Average oil price projections, US \$ per barrel
Table 13.1.	Biodiesel production, million litres
Table 13.2.	Ethanol production, million litres
Table 13.3.	Biodiesel projections
Table 13.4.	Bioethanol projections
Table 14.1.	Energy content of marginal transport fuel – pure and blends, MJ/litre
Table 14.2.	Energy content of marginal transport fuel blends, MJ/litre

Table 14.3.	EU Member States goals for the use of biofuels as transportation fuel, % of total fuel use
Table 14.4.	Road transportation fuels consumption in the EU, 2006 – 2011, ktoe
Table 14.5.	Renewable Energy Directive targets
Table 14.6.	Greenhouse gas emissions for biofuel feedstocks according to the European Commission
Table 14.7.	Milestones for the biofuel industry in the EU
Table 14.8.	REACH costs
Table 14.9.	Development of biodiesel plants in the EU, thousand litres
Table 14.10.	EU 2008 and 2009 biodiesel capacity estimates
Table 14.11.	Production capacity of the main biodiesel producers in Europe
Table 14.12.	Development of ethanol plants in the EU, million litres
Table 14.13.	Production capacity of the main ethanol producers, 2010
Table 14.14.	Ethanol plants in the EU, million litres, March 2010
Table 14.15.	Advanced biofuel plants in the EU
Table 14.16.	Jobs created by the sector in key European countries
Table 15.1.	Fuel Taxes
Table 15.2.	Breakdown of transport fuels in Bulgaria
Table 15.3.	Quota for Biodiesel and Bioethanol from 2003-2010
Table 15.4.	Quotas and taxes for biofuels in Germany
Table 15.5.	Tax exemptions in € per litre of biofuels
Table 15.6.	Land use criteria for sustainable biofuels in Germany
Table 15.7.	Energy tax on pure biodiesels, € per litre
Table 15.8.	Consumption of biofuels in Germany, thousand tonnes
Table 15.9.	Average price at the filling station for biodiesel and diesel in Germany, June 2010
Table 15.10.	Biodiesel plants in operation in Germany, end 2009
Table 15.11.	Incentives for Irish farmers producing energy crops
Table 15.12.	Financial support for production facilities
Table 15.13.	Abengoa Bioenergy global presence
Table 15.14.	Biodiesel plants in operation, under construction and planned in Spain
Table 15.15.	Ethanol plants in Spain, excluding Abengoa's plants
Table 15.16.	Ethanol plants in Sweden
Table 15.17.	Biodiesel plants in Sweden
Table 15.18.	Planned biodiesel projects in Switzerland, million litres
Table 16.1.	History of ethanol subsidy legislation in the US
Table 16.2.	State fuel taxes
Table 16.3.	Biofuel blends and car manufacturing compatibility in the US
Table 16.4.	Ethanol plants in the USA, July 2010
Table 16.5.	Business structure of the top 5 ethanol producers in the US

Table 16.6.	US cellulosic ethanol projects under development and construction
Table 16.7.	Awardees of US Department of Energy and Department of Agriculture funding, December 2009
Table 16.8.	Valero Renewables' ethanol plants
Table 16.9.	DDGS produced for a 20 million gallon (91 million litres) plant using different feedstocks
Table 16.10.	Business models for the top five biodiesel producers in the US
Table 16.11.	Biodiesel plants in the USA, July 2010
Table 17.1.	Production costs for ethanol in the USA, Germany and Brazil, € per 1,000 litres
Table 17.2.	Installed biofuel capacity and targets in Brazil
Table 17.3.	Top ten sugar cane facilities in Sao Paulo State for the 2008/2009 harvest
Table 17.4.	Key Companies using SCA Brazil Ethanol brokerage
Table 17.5.	Biodiesel plants in operation in Brazil
Table 17.6.	Investment in renewable energies
Table 17.7.	Ethanol plants owned by Cosan in Brazil
Table 18.1.	Argentina Renewables' list of biodiesel plants in operation, large scale
Table 18.2.	Ethanol plants in operation in Colombia
Table 18.3.	Biodiesel plants in operation in Colombia
Table 18.4.	Top five biodiesel plants in operation in Honduras
Table 19.1.	Blending mandates in Canadian provinces, target dates
Table 19.2.	Incentives for biofuels in Canadian provinces
Table 19.3.	Federal programmes to promote a domestic renewable fuels industry in Canada
Table 19.4.	Ethanol plants in operation or under construction in Canada
Table 19.5.	Biodiesel plants in operation or under construction in Canada
Table 19.6.	Tax exemptions for E10 by Canadian province
Table 19.7.	Ethanol pilot project in Mexico
Table 20.1.	Biodiesel plants in Australia, January 2010
Table 20.2.	Ethanol plants in operation in Australia, January 2010
Table 20.3.	Biofuels Excise Rates for Australia
Table 20.4.	Effective fuel tax rates for alternative fuels in Australia
Table 20.5.	Blending mandates in Australia, target dates
Table 20.6.	Second generation Biofuels Research and Development Programme projects in Australia
Table 20.7.	Leading biofuel players in New Zealand, as of August 2009
Table 21.1.	China investment in renewable energy markets
Table 21.2.	Ethanol plants in operation in China, million litres
Table 21.3.	Cities with the E10 blend mandate in China
Table 21.4.	Cost analysis of using different feedstocks for ethanol using 2006 prices in China
Table 21.5.	Major biodiesel facilities in China

Table 21.6.	Project financing for biofuel projects in India
Table 21.7.	Blending mandate for biodiesel in Indonesia
Table 21.8.	Blending mandate for ethanol in Indonesia
Table 21.9.	Biodiesel projects in operation in Malaysia
Table 21.10.	Fifteen year Renewable Energy Development Plans for biofuels in Thailand, million litres per day
Table 21.11.	Ethanol plants in Thailand, March 2010
Table 21.12.	Breakdown of retail prices for B2 and B5 biodiesel in Thailand as of May 2010
Table 21.13.	Biodiesel plants in operation in Thailand, March 2010
Table 21.14.	Comparison different feedstocks for ethanol in the Philippines
Table 24.1.	Aviation ground rules for 2nd and 3rd generation biomass fuelling
Table 24.2.	US military supply contracts for biofuels
Table 24.3.	Biofuel manufacturers with contracts to develop or supply fuel for the aviation sector
Table 25.1.	Oil and gas company investments in biofuels
Table 26.1.	Biofuel targets, subsidies and incentives for biofuels for EU member states
Table 26.2.	Biofuel targets, subsidies and incentives outside the EU

Table of Contents

Published By	2
Copyright Notice.....	2
Table of Contents.....	3
List of Figures.....	7
List of Tables	11
1 Executive Summary.....	15
2 Introduction.....	17
3 First generation biofuels	21
3.1 Ethanol (Bioethanol).....	21
3.1.1 Corn.....	22
3.1.2 Sugar beet.....	23
3.1.3 Sugar cane	23
3.1.4 Sorghum.....	25
3.2 Biodiesel.....	26
3.2.1 Palm oil.....	26
3.2.2 Soy beans (Soya; Soya beans).....	28
3.2.3 Rapeseed.....	28
4 Energy Crops.....	31
4.1.1 Jatropha.....	31
4.1.2 Camelina	35
4.1.3 Croton trees.....	36
4.1.4 Miscanthus (Miscanthus giganteus).....	37
4.1.5 Poplar trees	37
4.1.6 Salicornia (Salicornia Bigelovii, Dwarf saltwort, Dwarf glasswort).....	37
4.1.7 Switch grass	38
5 Waste vegetable oil and tallow	39
5.1.1 Fuel: Biodiesel	39
6 Cellulosic biofuels (lignocellulosic biofuels).....	40
6.1 Second generation	40
6.1.1 Fuel: Ethanol	40
7 Algae.....	49
7.1 Third generation biofuel.....	49
7.1.1 Fuel: Diesel substitute	49
8 Biotechnology	54
9 Conversion process.....	56
10 Environmental Impact.....	58
11 Food versus fuel debate	64
12 Market.....	65
12.1 Financials	65
12.2 Companies	71
12.3 Petroleum transport fuels	74
13 Biofuel production.....	78
14 Europe	84
14.1 EU Biofuels Directive.....	85



14.2	Renewable Energy Directive	87
14.3	REACH	90
14.4	Import and export regulations.....	91
14.5	Biofuel production.....	93
	14.5.1 Biodiesel.....	93
14.6	Ethanol	98
14.7	Biofuel consumption	108
14.8	Next generation biofuels.....	109
14.9	Job creation	110
14.10	Factors affecting the market.....	111
14.11	EU competitiveness.....	113
15	European countries	114
15.1	Austria	114
15.2	Belgium.....	114
15.3	Bulgaria	115
15.4	Denmark	116
15.5	Estonia.....	117
15.6	Finland.....	117
15.7	France	117
15.8	Germany.....	118
15.9	Ireland.....	124
15.10	Latvia	125
15.11	Luxembourg.....	125
15.12	Netherlands	126
15.13	Norway	126
15.14	Poland	126
15.15	Portugal	127
15.16	Romania	127
15.17	Spain.....	127
15.18	Sweden.....	131
15.19	Switzerland.....	134
15.20	Turkey.....	136
15.21	UK.....	137
16	USA	138
16.1	Incentives	138
16.2	Renewable Fuel Standard.....	139
16.3	Food, Conservation, and Energy Act of 2008 (Farm Bill 2008)	142
16.4	State legislation	142
16.5	Biofuel imports and exports.....	144
16.6	Market.....	145
16.7	Next generation biofuels.....	156
16.8	Economic downturn.....	161
16.9	Animal feed.....	162
16.10	Biodiesel	163
17	Brazil.....	171
17.1	Sugar production	172



17.2	Sugar cane production	173
17.3	Ethanol plants	173
17.4	Ethanol	176
17.5	Blending mandates	179
17.6	Export market	179
17.7	Biodiesel	181
17.8	Investment	183
17.9	Foreign Investment	185
18	Latin America	186
18.1	Argentina	186
18.2	Colombia	191
18.3	Honduras	192
18.4	Paraguay	194
18.5	Peru	195
18.6	Uruguay	195
19	North America	198
19.1	Canada	198
19.2	Biodiesel	204
19.3	Ethanol	204
19.4	Mexico	205
20	Oceania	208
20.1	Australia	208
20.2	New Zealand	213
21	ASIA	222
21.1	China	222
21.2	Chinese Taiwan	226
21.3	India	226
21.4	Indonesia	231
21.5	Japan	234
21.6	Korea, South	236
21.7	Malaysia	236
21.8	Pakistan	238
21.9	Thailand	239
21.10	The Philippines	248
21.11	Vietnam	251
22	Russia and the CIS countries	252
22.1	Russia	252
22.2	Ukraine	252
22.3	Other countries	253
23	Africa	254
23.1	South Africa	254
23.2	Sudan	255
23.3	Other countries	255
	23.3.1 Kenya	255
	23.3.2 Mozambique	255
	23.3.3 Tanzania	255

24	Aviation sector	256
24.1	Carbon emissions.....	256
24.2	Bio-jet fuels.....	257
24.3	Air force and the military.....	263
25	Oil & Gas Involvement.....	266
26	Biofuel targets, subsidies and incentives	279
27	Conversion units.....	297
28	Acknowledgements	298

List of Figures

- Figure 2.1. Development of biofuels
- Figure 2.2. Products from biofuel feedstocks
- Figure 3.1. World corn price projections, US \$ per tonne
- Figure 3.2. World sugar price projections, US \$ per tonne
- Figure 3.3. Fuel yield for biofuel feedstocks, gasoline equivalent, gallons per acre
- Figure 3.4. World vegetable oil prices, US \$ per tonne
- Figure 3.5. World oil seed prices, US \$ per tonne
- Figure 4.1. Jatropha curcas
- Figure 4.2. Scale of jatropha projects (hectares) and number of projects, 2008 and 2015
- Figure 4.3. Camelina*
- Figure 4.4. Salicornia (Salicornia Bigelovi)
- Figure 6.1. Breakdown of operating costs for a cellulosic plant using enzyme pre-treatment
- Figure 6.2. Status of cellulosic ethanol plants as of February 2010
- Figure 6.3. Adjusted feedstock potential for cellulosic feedstocks
- Figure 6.4. Planned development of cellulosic ethanol capacity by the top ten developers, million litres
- Figure 7.1. Microalgae and macroalgae. Microalgae (left) Macroalgae (right)
- Figure 8.1. Role of biotechnology in biofuel production
- Figure 9.1. Levelised cost of energy for transport fuels, US \$ per litre
- Figure 9.2. Conversion pathways to produce biofuels
- Figure 10.1. Greenhouse gas savings of biofuels by feedstock and country of origin, % - Biodiesel
- Figure 10.2. Greenhouse gas savings of biofuels by feedstock and country of origin, % - Ethanol and Biogas
- Figure 10.3. Future research challenges for assessing the environmental impacts of biofuels
- Figure 10.4. Global average water footprint for ethanol feedstocks, m³/GJ
- Figure 10.5. Global average water footprint for biodiesel feedstocks, m³/GJ
- Figure 12.1. New investment by technology, 2009, US \$billion
- Figure 12.2. Global Asset Financing (GAF), US \$ million, Q1 2009 – Q2 2010
- Figure 12.3. Global Asset Financing (GAF) per biofuel project, US \$ million, Q1 2009 – Q2 2010
- Figure 12.4. Biofuels New Build Asset Investment Waves, US \$ billion
- Figure 12.5. Investments in terms of feedstocks, US \$ million, 2009
- Figure 12.6. VC/PE investments in biofuels, US \$ million, Q1 2009 – Q2 2010
- Figure 12.7. Average VC/PE investments in biofuels per deal, US \$ million, Q1 2009 – Q2 2010
- Figure 12.8. Top ten companies in 2009 in terms of investments, US \$ million

- Figure 12.9. Corporate and government R&D investment by technology, 2009, and total growth on 2008, US \$ billion
- Figure 12.10. Average crude oil import costs, US \$/barrel*
- Figure 12.11. Short term oil price forecast, West Texas Spot price, US\$ per barrel
- Figure 12.12. DOE EIA World oil price projections, US \$ per barrel
- Figure 14.1. Biofuel chain and supply measures in the EU
- Figure 14.2. Proportion of biofuel meeting sustainability standards
- Figure 14.3. Idle and used biodiesel capacity in the EU, million litres
- Figure 14.4. Average installed capacity of biodiesel plants in the EU, million litres
- Figure 14.5. Biodiesel production in the top six EU countries, million litres
- Figure 14.6. Market share of biodiesel production in the top six EU countries, %, 2009 (left) and 2011 (right)
- Figure 14.7. Feedstock used for biodiesel production, thousand tonnes
- Figure 14.8. Idle and used ethanol capacity in the EU, million litres
- Figure 14.9. Average installed capacity of ethanol plants in the EU, million litres
- Figure 14.10. Ethanol production in the top six EU countries, million litres
- Figure 14.11. Market share of ethanol production in the top six EU countries, %, 2009 (left) and 2011 (right)
- Figure 14.12. Balance of ethanol trade, net exporters +and net importers -, million litres
- Figure 14.13. Feedstock used for ethanol production, thousand tonnes
- Figure 14.14. Fate of ethanol produced in the EU, million litres
- Figure 14.15. Imports of biofuels into the EU, million litres
- Figure 14.16. Production of DDGS during ethanol production in the EU, thousand tonnes
- Figure 14.17. Consumption of biofuels in the EU, 2006 - 2011
- Figure 14.18. Biodiesel consumption in the EU, 2009 - 2011, million litres
- Figure 14.19. Ethanol consumption in the EU, 2009 - 2011, million litres
- Figure 15.1. Projections on the production of biodiesel and ethanol in Bulgaria, 2008 – 2020
- Figure 15.2. Standard greenhouse gas emissions for biofuels, established by the UFOP in Germany, gCO₂eq per MJ, %
- Figure 15.3. Ethanol market in Sweden, thousand litres
- Figure 15.4. Biodiesel market in Sweden, thousand litres
- Figure 15.5. Quantity of feedstock used in biofuel production in Sweden, thousand tonnes
- Figure 15.6. Biodiesel consumption in Switzerland, million litres
- Figure 15.7. Ethanol consumption in Switzerland, million litres
- Figure 16.1. Renewable fuel volume obligation as established in the RFS program, billion litres
- Figure 16.2. Blending mandates in the US, launch dates
- Figure 16.3. Historical US ethanol imports, million litres

- Figure 16.4. Growth of the ethanol industry in the US, billion litres
- Figure 16.5. Average production capacity of ethanol plants in operation in the US, million litres
- Figure 16.6. Top ten states for ethanol production, million litres
- Figure 16.7. US Ethanol biorefinery locations
- Figure 16.8. Top ten ethanol producers in terms of installed capacity, million litres
- Figure 16.9. Breakdown of funding for advanced biorefinery projects, December 2009, US \$ million
- Figure 16.10. Fate of corn harvested for ethanol production in the USA, 2009
- Figure 16.11. Breakdown of feedstocks for biodiesel plants in operation and under construction in the US, %
- Figure 16.12. Breakdown of biodiesel production costs
- Figure 16.13. Top ten biodiesel manufacturers in the US, million litres
- Figure 16.14. Production and consumption of biodiesel in the US, million litres
- Figure 17.1. Sugar producing regions and ethanol plants in Brazil
- Figure 17.2. Sugar cane and sugar production in Brazil for each crop harvest, million tonnes
- Figure 17.3. Balance of cane products and by-products, 1,000 kg of planted cane
- Figure 17.4. Ethanol production in Brazil for each crop harvest, million litres
- Figure 17.5. Average price of Brazilian ethanol exports, US \$ per litre
- Figure 18.1. Anticipated fate of biodiesel produced by the ten largest biodiesel producers by installed capacity, million litres, 2010
- Figure 18.2. Map showing biofuel production and blending terminal locations in Argentina
- Figure 18.3. Supply commitments for ethanol producers for the Argentinian market from the government, million litres, 2010
- Figure 18.4. Supply commitments for biodiesel producers for the Argentinian market from the government, million litres, 2010
- Figure 18.5. Fate of palm oil produced in Honduras, tonnes
- Figure 18.6. Development of the biofuel market in Paraguay, million litres
- Figure 18.7. Quantity of feedstock used in biofuel production in Uruguay, tonnes
- Figure 19.1. Ethanol and biodiesel plants in Canadian provinces, million litres
- Figure 19.2. Feedstocks used by Canadian biofuel plants, million litres
- Figure 19.3. Map of potential areas for biofuel feedstock cultivation in Mexico
- Figure 20.1. Ethanol production capacity in operation in Australia, million litres
- Figure 20.2. Biodiesel production capacity in operation in Australia, million litres
- Figure 20.3. Breakdown of biodiesel sold on the Australian market, million litres
- Figure 21.1. Fuel ethanol plants in China
- Figure 21.2. Sugar cane feedstocks in India, thousand tonnes
- Figure 21.3. Production and consumption of ethanol in India, 2006 – 2011, million litres
- Figure 21.4. Breakdown of fate of biodiesel produced by manufacturers in Indonesia, million litres

- Figure 21.5. Map of installed ethanol plants in Indonesia
- Figure 21.6. Map of installed biodiesel plants in Indonesia
- Figure 21.7. Annual and forecast of crude palm oil production in Malaysia, million tonnes
- Figure 21.8. Main feedstock used to produce ethanol in Thailand, thousand litres per day
- Figure 21.9. Anticipated production of ethanol from cassava and molasses in Thailand, million litres per day
- Figure 21.10. Prices of ethanol blends and gasoline in Thailand, 2005 – 2009, THB per litre
- Figure 21.11. Prices of biodiesel blends and gasoline in Thailand, 2005 – 2009, THB per litre
- Figure 21.12. Feedstocks used in biodiesel plants in Thailand
- Figure 21.13. Projections on domestic demand for biodiesel in Thailand, million litres
- Figure 21.14. Breakdown of manufacturers of biodiesel in Thailand, thousand litres per day
- Figure 21.15. Projections of idle and operating ethanol capacity in the Philippines, million litres
- Figure 21.16. Projections of ethanol production and imports in the Philippines, million litres
- Figure 21.17. Projections of biodiesel production and consumption in the Philippines, million litres
- Figure 24.1. Timeline of proposed legislation and voluntary targets for the aviation sector
- Figure 24.2. Aviation fuel demand and supply scenarios
- Figure 24.3. CAAFI R&D roadmap for biofuel feedstocks

List of Tables

Table 2.1.	Production processes for first generation biofuels
Table 3.1.	Advantages and disadvantages of ethanol compared to gasoline
Table 3.2.	Yields of ethanol per feedstock
Table 3.3.	Monthly prices for corn, US \$ per tonne
Table 3.4.	Products from sugar cane production
Table 3.5.	Monthly sugar prices, US \$ cents per pound
Table 3.6.	Advantages and disadvantages of biodiesel compared to petroleum diesel
Table 3.7.	Monthly prices for feedstocks for the production of biodiesel, US \$ per tonne
Table 4.1.	By-products from jatropha
Table 4.2.	The advantages and disadvantages of jatropha
Table 4.3.	Key companies involved in jatropha projects
Table 4.4.	Main developers of biodiesel from Camelina
Table 6.1.	Cellulosic waste materials of food crops
Table 6.2.	Top cellulosic ethanol manufacturers in terms of installed capacity in 2009
Table 6.3.	The advantages and disadvantages of cellulosic ethanol as an alternative to first-generation biofuels feedstocks on the market
Table 7.1.	The biodiesel yield per acre for different feedstocks
Table 7.2.	Production capacity for algae biofuel developers, million litres, 2010 and 2012
Table 7.3.	Products derived from algae
Table 7.4.	The advantages and disadvantages of algae as an alternative to first-generation biofuels feedstocks on the market
Table 9.1.	Description of Conversion Pathway
Table 10.1.	Emissions Lifecycle for each Feedstock
Table 10.2.	How green are biofuels?
Table 12.1.	Business model of the top ten biofuel companies in terms of investments last year
Table 12.2.	Estimates of subsidies for different energy sources
Table 12.3.	Transport fuel prices and taxes per litre, June 2010
Table 12.4.	Transport fuel prices, May 2010, US dollars per litre
Table 12.5.	Relationships between crude oil, gasoline, ethanol and break-even corn prices
Table 12.6.	Average oil price projections, US \$ per barrel
Table 13.1.	Biodiesel production, million litres
Table 13.2.	Ethanol production, million litres
Table 13.3.	Biodiesel projections
Table 13.4.	Bioethanol projections
Table 14.1.	Energy content of marginal transport fuel – pure and blends, MJ/litre
Table 14.2.	Energy content of marginal transport fuel blends, MJ/litre

Table 14.3.	EU Member States goals for the use of biofuels as transportation fuel, % of total fuel use
Table 14.4.	Road transportation fuels consumption in the EU, 2006 – 2011, ktoe
Table 14.5.	Renewable Energy Directive targets
Table 14.6.	Greenhouse gas emissions for biofuel feedstocks according to the European Commission
Table 14.7.	Milestones for the biofuel industry in the EU
Table 14.8.	REACH costs
Table 14.9.	Development of biodiesel plants in the EU, thousand litres
Table 14.10.	EU 2008 and 2009 biodiesel capacity estimates
Table 14.11.	Production capacity of the main biodiesel producers in Europe
Table 14.12.	Development of ethanol plants in the EU, million litres
Table 14.13.	Production capacity of the main ethanol producers, 2010
Table 14.14.	Ethanol plants in the EU, million litres, March 2010
Table 14.15.	Advanced biofuel plants in the EU
Table 14.16.	Jobs created by the sector in key European countries
Table 15.1.	Fuel Taxes
Table 15.2.	Breakdown of transport fuels in Bulgaria
Table 15.3.	Quota for Biodiesel and Bioethanol from 2003-2010
Table 15.4.	Quotas and taxes for biofuels in Germany
Table 15.5.	Tax exemptions in € per litre of biofuels
Table 15.6.	Land use criteria for sustainable biofuels in Germany
Table 15.7.	Energy tax on pure biodiesels, € per litre
Table 15.8.	Consumption of biofuels in Germany, thousand tonnes
Table 15.9.	Average price at the filling station for biodiesel and diesel in Germany, June 2010
Table 15.10.	Biodiesel plants in operation in Germany, end 2009
Table 15.11.	Incentives for Irish farmers producing energy crops
Table 15.12.	Financial support for production facilities
Table 15.13.	Abengoa Bioenergy global presence
Table 15.14.	Biodiesel plants in operation, under construction and planned in Spain
Table 15.15.	Ethanol plants in Spain, excluding Abengoa's plants
Table 15.16.	Ethanol plants in Sweden
Table 15.17.	Biodiesel plants in Sweden
Table 15.18.	Planned biodiesel projects in Switzerland, million litres
Table 16.1.	History of ethanol subsidy legislation in the US
Table 16.2.	State fuel taxes
Table 16.3.	Biofuel blends and car manufacturing compatibility in the US
Table 16.4.	Ethanol plants in the USA, July 2010
Table 16.5.	Business structure of the top 5 ethanol producers in the US

Table 16.6.	US cellulosic ethanol projects under development and construction
Table 16.7.	Awardees of US Department of Energy and Department of Agriculture funding, December 2009
Table 16.8.	Valero Renewables' ethanol plants
Table 16.9.	DDGS produced for a 20 million gallon (91 million litres) plant using different feedstocks
Table 16.10.	Business models for the top five biodiesel producers in the US
Table 16.11.	Biodiesel plants in the USA, July 2010
Table 17.1.	Production costs for ethanol in the USA, Germany and Brazil, € per 1,000 litres
Table 17.2.	Installed biofuel capacity and targets in Brazil
Table 17.3.	Top ten sugar cane facilities in Sao Paulo State for the 2008/2009 harvest
Table 17.4.	Key Companies using SCA Brazil Ethanol brokerage
Table 17.5.	Biodiesel plants in operation in Brazil
Table 17.6.	Investment in renewable energies
Table 17.7.	Ethanol plants owned by Cosan in Brazil
Table 18.1.	Argentina Renewables' list of biodiesel plants in operation, large scale
Table 18.2.	Ethanol plants in operation in Colombia
Table 18.3.	Biodiesel plants in operation in Colombia
Table 18.4.	Top five biodiesel plants in operation in Honduras
Table 19.1.	Blending mandates in Canadian provinces, target dates
Table 19.2.	Incentives for biofuels in Canadian provinces
Table 19.3.	Federal programmes to promote a domestic renewable fuels industry in Canada
Table 19.4.	Ethanol plants in operation or under construction in Canada
Table 19.5.	Biodiesel plants in operation or under construction in Canada
Table 19.6.	Tax exemptions for E10 by Canadian province
Table 19.7.	Ethanol pilot project in Mexico
Table 20.1.	Biodiesel plants in Australia, January 2010
Table 20.2.	Ethanol plants in operation in Australia, January 2010
Table 20.3.	Biofuels Excise Rates for Australia
Table 20.4.	Effective fuel tax rates for alternative fuels in Australia
Table 20.5.	Blending mandates in Australia, target dates
Table 20.6.	Second generation Biofuels Research and Development Programme projects in Australia
Table 20.7.	Leading biofuel players in New Zealand, as of August 2009
Table 21.1.	China investment in renewable energy markets
Table 21.2.	Ethanol plants in operation in China, million litres
Table 21.3.	Cities with the E10 blend mandate in China
Table 21.4.	Cost analysis of using different feedstocks for ethanol using 2006 prices in China
Table 21.5.	Major biodiesel facilities in China

Table 21.6.	Project financing for biofuel projects in India
Table 21.7.	Blending mandate for biodiesel in Indonesia
Table 21.8.	Blending mandate for ethanol in Indonesia
Table 21.9.	Biodiesel projects in operation in Malaysia
Table 21.10.	Fifteen year Renewable Energy Development Plans for biofuels in Thailand, million litres per day
Table 21.11.	Ethanol plants in Thailand, March 2010
Table 21.12.	Breakdown of retail prices for B2 and B5 biodiesel in Thailand as of May 2010
Table 21.13.	Biodiesel plants in operation in Thailand, March 2010
Table 21.14.	Comparison different feedstocks for ethanol in the Philippines
Table 24.1.	Aviation ground rules for 2nd and 3rd generation biomass fuelling
Table 24.2.	US military supply contracts for biofuels
Table 24.3.	Biofuel manufacturers with contracts to develop or supply fuel for the aviation sector
Table 25.1.	Oil and gas company investments in biofuels
Table 26.1.	Biofuel targets, subsidies and incentives for biofuels for EU member states
Table 26.2.	Biofuel targets, subsidies and incentives outside the EU



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