

## FOCUS: BIOFUELS

### U.S. Biofuels Update

The biofuels market has recovered somewhat since the crash at the beginning of the year. Ethanol production as of July had reached 5.92 BGY and was on track to surpass last year's total production of 9.3 BGY. Biodiesel production through July was 262 MGY, a sharp falloff from last year's pace of 436 MGY.

The economics of corn-based ethanol have improved markedly with the rise in oil prices over the last two quarters of 2009 and plant utilization rates are over 80%. Growth in production can be expected through 2010 but growth in capacity is questionable. Investors have grown gun-shy of biofuels in general and the so-called blender's credit expires at the end of 2010.

The biodiesel industry is suffering from a combination of a stiff import tariff in the EU, an enormous amount of excess production capacity and the likelihood that its blender's credit will not be renewed before it expires at the end of this year. Long term prospects for soy based biodiesel appear dim. Plants utilizing recycled cooking oil and animal fats are the only ones that appear to have the right economics to survive long term.

Cellulosic ethanol production capacity is developing very slowly. Obtaining the necessary financing has been the biggest hurdle. EPA is very likely to reduce the 2009 and 2010 blending requirements due to a lack of production capacity.

In general, biofuels have fallen out of favor with investors and support from the Obama administration has been lukewarm. EPA Administrator Jackson said EPA was unlikely to rule on the petition to allow higher ethanol blends for use in non-flex fuel vehicles by Dec. 1. In addition, comments by Valerie Reid from DOE indicate a refocusing of efforts to advanced biofuels that are drop-in replacements for gasoline and diesel. Bright spots are in algal based fuels and a green replacement for commercial and military jet fuel.

Despite all of this, DOE is still forecasting significant growth in biofuels use over the next 10-20 years. Much of this hinges on the passage of the climate bill.

For more information, contact Jim Murphy at [jim.murphy@contextnet.com](mailto:jim.murphy@contextnet.com).



Context  
Associate,  
Jim Murphy

###

**The Context Network** provides business management and strategy consulting services to the world's leading agriculture, biotechnology and food companies and government agencies and institutions. Major areas of expertise include strategy, merger and acquisition support, valuation of new technologies, formation of alliances, and market research. The West Des Moines-based firm is composed of a core of professional consultants that is complemented by a network of more than 200 industry and subject-area experts.