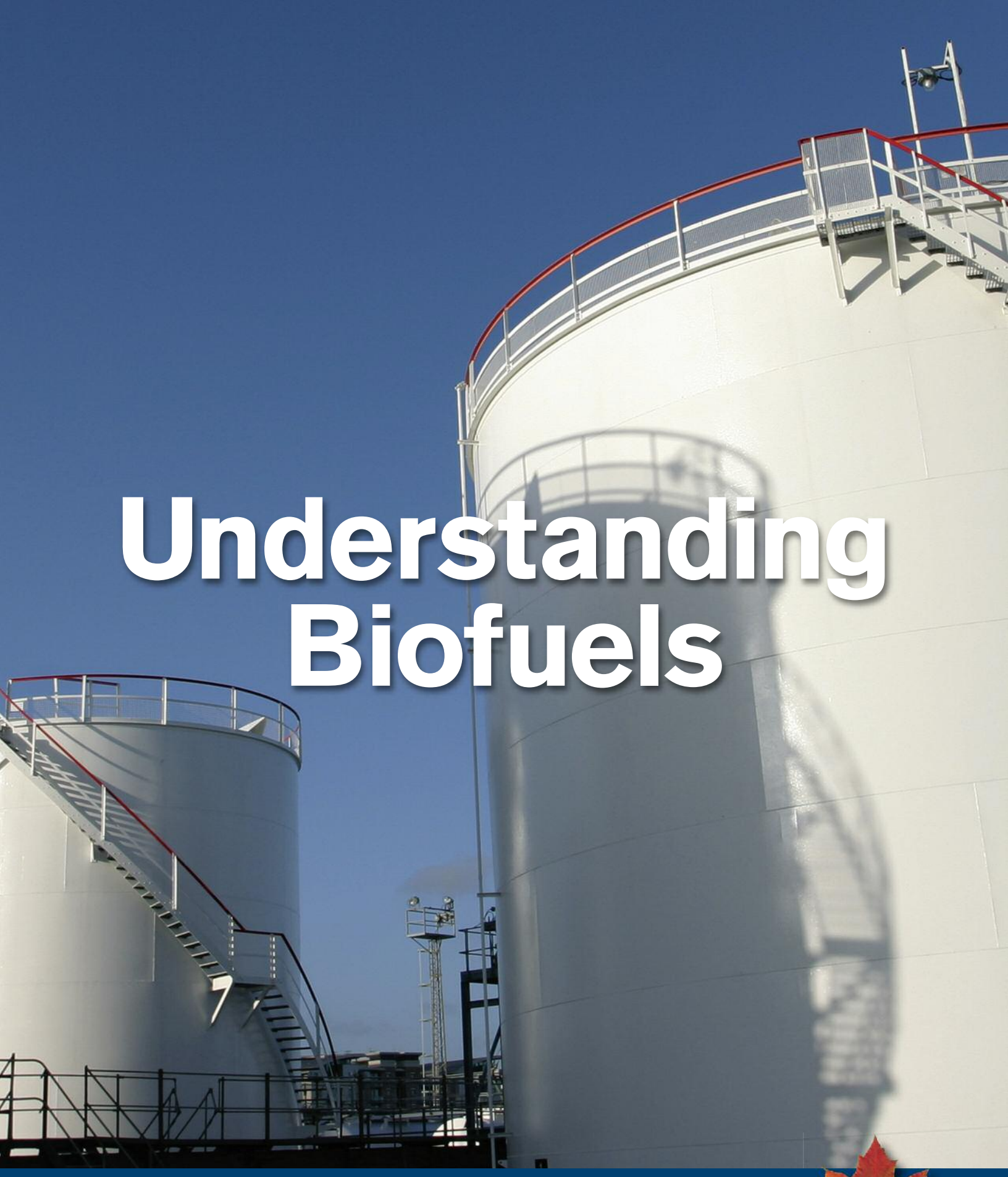


Understanding Biofuels

Farm Credit Canada
Advancing the business of agriculture

Canada

Are biofuels an idea whose time has come?

In 1898, Rudolf Diesel used peanut oil to run his original compression-ignition engine. In 1908, Henry Ford designed his Model T to run on ethanol. Early in the 20th century, many believed that vegetable-based fuel would be commonplace. Although the diesel engine gained widespread use, biofuels lost their edge to petroleum, which was widely available at a lower cost.

Today, with petroleum-producing fossil fuel in limited supply and a rising commitment worldwide to create a sustainable environment, biofuels are back on the agenda. The increasing demand for wheat, corn, canola and soybeans is filled with opportunities for Canadian producers and agriculture entrepreneurs.

The biofuels industry grew by leaps and bounds from 2006 to mid-2008, but issues like climate change, energy independence, the environment, food prices and land use are feeding a debate.

For the first time in history, the economies of food and energy are competing. Countless biofuel-related studies, papers, online discussions and media stories explore the food versus fuel debate. Opinions range from one extreme to the other and some experts don't believe there is an issue at all.

Since corn sweeteners make up 56 per cent of all sugars consumed in the United States, the rising cost of corn – due to its use as an ethanol feedstock – has had an impact on soft drink and confectionary companies. Some are even investigating alternatives to high-fructose corn syrup.

In 2009, the United States, Brazil and Germany accounted for three-quarters of global ethanol production and over half of global biodiesel production. The International Food Policy Research Institute believes that in addition to substantially reducing carbon emissions, biofuels could contribute to a rise in incomes among rural populations.

Plant breeders are focused on developing higher yield crop varieties based on viable ethanol production technologies. Livestock, pork and poultry producers are hunting for feed substitutes and solutions, some of which could come from biofuel byproducts.The long-term goal is to fill the demand for both food and ethanol inputs. There is both opportunity and challenge for Canadian agriculture.

What are biofuels?

Biofuels are fuels derived directly from organic materials. They have the potential to reduce pollution and greenhouse gas emissions while diversifying the energy supply. Ethanol and biodiesel are the two best known conventional biofuels.

Did you know?

- The International Energy Agency (IEA) forecasts that biofuels will comprise 12 per cent of global liquid fuel supplies by 2030 and 26 per cent by 2050. In 2008, biofuels accounted for slightly over one per cent of total liquid motor fuels.
- Companies like DuPont, Dow and Monsanto are working with car manufacturers to research the potential of using everything from chocolate to coffee to seaweed as feedstock for bio-products.
- CropLife Canada, the trade association representing the manufacturers, developers and distributors of pest control products and plant biotechnology, said in 2007 that by the middle to latter half of this decade, the demand for crops with an industrial purpose has the potential to grow from current levels of approximately $40 billion to $500 billion a year globally.
- Beverage and fuel alcohol are essentially the same, but beverage alcohol is purer. A small amount of gasoline is added to make fuel alcohol or ethanol.
- Ethanol keeps indefinitely, provided it's sealed from air and water. Due to the hydrogen bonding properties of ethanol, care must be taken with regard to exposure as it can absorb water from the air. If too much water is present in the ethanol when used as an additive to fuel, the water will separate from the mixture and settle to the bottom of the fuel tank.

Ethanol

Ethanol is a fuel-grade alcohol traditionally made by fermenting corn, wheat or sugar cane. It is typically blended with gasoline at a rate of 10 per cent, which can be used in gasoline engines without any modification to the vehicle.

Ethanol blended with gasoline at a rate of up to 85 per cent ethanol (E85) is being produced for use in flexible fuel vehicles. Flex-fuel vehicles can run either on gasoline or on a blend of up to 85 per cent ethanol. They look like the gasoline only-models, but the engine and fuel systems have been modified. A flex-fuel vehicle is not the same as a hybrid vehicle, as it is powered by an internal combustion engine only. Hybrids use a mixture of power or fuel sources like engines, electric motors, pneumatics and hydraulics.

Ethanol acts as an oxygenator in the gasoline, contributing to a cleaner burn. The most common oxygenator currently in use is methyl tertiary butyl ether (MTBE), which is coming under scrutiny as a possible carcinogen and ground water pollutant. Oil refineries are moving to replace MTBE with ethanol as several U.S. states have passed legislation to either partially or fully ban MTBE, contributing to the demand for ethanol.

Ethanol contains relatively less energy than gasoline. A litre of fuel ethanol contains about 70 per cent of the energy of one litre of gasoline. But in E10 blends, which are 10 per cent ethanol and 90 per cent gasoline, this lower energy density does not lead to a measurable impact on consumption. While higher level blends such as E85 may require that the motorist refuel more often, the cost per kilometre could be more or less, depending on the relative pricing of fuel ethanol and gasoline.

Some reports noted that it takes more energy to produce a unit of ethanol than is derived from the unit. That is no longer the case. Taking into account every single input, University of Minnesota research shows that there is a minimum 1-to-1.25 conversion ratio today, which should improve with new technologies and corn varieties.

What is cellulosic ethanol?

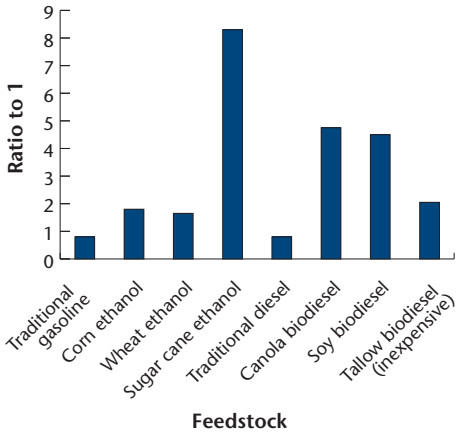
Cellulosic ethanol is the name given to ethanol made using materials such as crop residues including corn stalks, rice straw, wheat straw, switchgrass, corn fibre, soy fibre, forestry residue, municipal solid waste and recycled newsprint. Production of cellulosic ethanol involves a highly technical three-step chemical process that begins by extracting the cellulose from the cellulosic feedstock.

The cellulose is naturally glued together with a tough compound known as lignin. To produce ethanol, the cellulose must be unglued.

Using special enzymes the cellulose is then converted to sugar. The resultant sugar is fermented into cellulosic ethanol using a genetically modified form of yeast. Costs of producing fuel alcohol with this technology are still estimated to be 50 to 100 per cent higher than plants using grain as a feedstock.

Conversion ratios

A conversion ratio is the amount of energy output relative to the energy required to produce, process and deliver it to market. In other words, the higher the conversion ratio, the less energy and resources are required to produce a unit of ethanol. Reported conversion ratios vary by source and time of reporting as production efficiencies are realized. The graph recognizes these ranges and is included only to provide an indication of the variation between feedstock types.



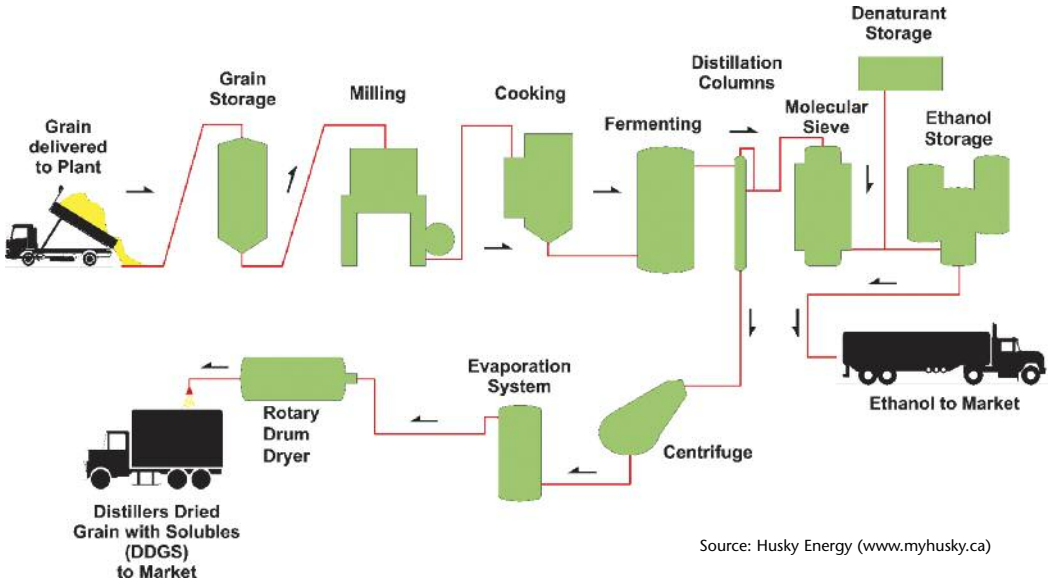
Source: Compiled by FCC

This technology is still emerging. Small research facilities focused on cellulosic ethanol have intermittently been in operation or are in development. In Canada, there is a demonstration facility operated by Iogen Corporation in Ottawa. In July 2008, Iogen and Royal Dutch Shell plc announced an extended commercial alliance to accelerate development and deployment of cellulosic ethanol. In June 2009, a Shell station in Ottawa became the first in the world to sell gasoline blended with cellulosic ethanol made from wheat straw at Iogen's demonstration plant.

Operating basics

Making ethanol

1. Grind corn or wheat kernels in a mill to expose the starch.
2. Mix the ground feedstock with water and cook it briefly.
3. Add enzymes to the mixture to convert the starch to sugar. This produces a chemical reaction called hydrolysis.
4. Add yeast to ferment the sugars.
5. Distil the resulting fermented mash to produce ethanol.
6. Treat the ethanol with a small amount of gasoline to convert the ethanol into fuel-grade ethanol.
7. Blend fuel-grade ethanol with conventional gasoline at points along the distribution system or directly at blender pumps.



Source: Husky Energy (www.myhusky.ca)

The dry milling process is pictured here. There is also a wet milling process. The main difference between the two is in the initial treatment of the feedstock. In wet mills, the first step in the ethanol-making process involves soaking the grain in hot water to assist in separating it into its components. The capital cost per gallon of ethanol is lower when using the dry milling process. Dry-mill facilities account for more than 80 per cent of North American ethanol industry capacity. As of May 2008, more than 145 dry mill ethanol plants were operational in the U.S.

Spotlight on an ethanol production alternative

In March 2007, Japanese researchers announced an ambitious proposal for a large-scale ethanol production venture using seaweed as the main feedstock. The 3,860-square-mile seaweed farm, located in the middle of the Sea of Japan, could produce 5.3 billion gallons of ethanol a year, enough to off-set one-third of Japan's annual gasoline requirements. The plant would use enzymes in floating bio-reactors to convert the seaweed to sugar and then into ethanol. Tankers would transport the ethanol to land.

With corn or wheat as the feedstock, one bushel of grain will produce about 10 litres of ethanol.

Ethanol byproducts

In the dry milling process, the byproduct from extracted wheat or corn starch is called distillers dried grains (DDG). Distillers grains are high in protein and are particularly well-suited as a feed source for ruminant animals such as cattle and sheep.

There are wet and dry versions of distillers grains. Generally, the water is removed prior to shipping, resulting in DDG. Since the drying process requires extra energy, livestock can be fed the wet version, if it is feasible to feed near the production site.

Distillers grains lack one of the amino acids essential in the swine diet, but dried distillers grains with solubles (DDGS) do contain the required amino acid. Although it is a potential substitute to elevated feed prices for hog producers, it is recommended that inclusion rates not be pushed too high and that careful consideration be given to the digestible nutrient content when formulating rations.

If corn is used as the feedstock in ethanol production, the wet milling process yields a variety of corn products such as corn gluten, brewer's yeast, corn starch, fibre and gluten meal.

Biodiesel

Biodiesel is produced from renewable sources such as vegetable oil, recycled cooking oil, animal fat or agro-industry byproducts. Canada and the U.S. use mostly soybeans and canola.

Pure biodiesel is referred to as B100. But biodiesel is usually blended with regular diesel and is referred to by the percentage of the blend. B5, for example, is five per cent biodiesel and 95 per cent petroleum diesel.

Biodiesel-powered engines deliver similar torque, horsepower and kilometres per litre as petroleum powered diesels. Biodiesel offers the advantages of an increased lubricant and the ability to burn extremely clean. However, with the extreme winter weather conditions in parts of Canada, blends with an elevated percentage of biodiesel could gel when too cold. Research and testing are underway to find ways to avoid this. As is the case with cellulosic ethanol, there are a number of emerging technologies under study and development.

Germany is currently Europe's largest producer of biodiesel with France, Argentina, Brazil and the U.S. rounding out the top five biodiesel producers in the world.

For more information go to:
www.biodieselmagazine.com/articles/4447/global-biodiesel-production-and-market-report/
http://pressreleasepoint.com/globaldata-global-biodiesel-market-analysis-and-forecasts-2020-reportsresearchcom

Biodiesel is safe to handle and transport because it is as biodegradable as sugar, 10 times less toxic than table salt and has a high flashpoint of about 150 C (300 F) compared to petroleum diesel fuel, which has a flashpoint of 50 C (125 F).

In March 2009, the Government of Canada announced an investment in the Sustainable Cropping System Platforms for Biodiesel Feedstock Quantity and Quality (SBQQ) research network. Read the news release at www.agr.gc.ca/cb/index_e.php?s1=n&s2=2009&page=n90319b.

Making biodiesel

Biodiesel is typically created through a chemical process that separates glycerin from the vegetable oil or fat. Methyl esters, the chemical name for biodiesel, are the final product. When canola is used as the feedstock in biodiesel production, one bushel produces approximately eight litres of fuel. One bushel of soybeans produces about 5.7 litres.

Biodiesel is a biodegradable fuel that is made from plant oils, waste cooking oil, animal fats or tall oil (a by-product from pulp and paper processing). Biodiesel is produced from these feedstocks through a process called transesterification, by chemically reacting the oil with an alcohol (usually methanol) and a catalyst. The resulting chemical reaction produces glycerin and an ester called biodiesel. The majority of biodiesel is produced by this method.

- Oil feedstocks are processed and filtered to remove water and contaminants then fed into the transesterification process.
- A catalyst, potassium hydroxide or sodium hydroxide, is dissolved in methanol and then mixed with the pretreated oil and heat is applied.
- When the reaction is complete, the co-products of biodiesel and glycerin are separated.
- Methanol is recovered and recycled back to the beginning of the process.
- The biodiesel goes through a purification process to remove excess alcohol, residual catalyst and soaps.
- The glycerin byproduct can also be further purified to 99% purity for sale to the pharmaceutical and cosmetic industries.

Biodiesel byproducts

Usable byproducts of biodiesel production are soy meal and canola meal, which is the feedstock with the fat removed. Like DDG, meal can serve as a good feed source when diets are properly balanced. Canola meal has proven to be a premium ingredient for dairy cattle. According to the Canola Council of Canada, feeding Canola meal to dairy cows will increase milk production by one litre per cow per day compared to soybean meal or cottonseed meal.

Another byproduct is crude glycerin. One pound of glycerin is created for every gallon of biodiesel. Glycerin uses are still under study, but scientists at Rice University in Houston recently developed a technology designed to convert glycerin from biodiesel plants into ethanol. Other potential uses include pellet binding and calcium chloride replacement. Spotlight on an ethanol production alternative.

Biodiesel production by feedstock

Feedstock	Litres per hectare per year
Soy	375
Canola or rapeseed	1,000
Mustard	1,300
Palm oil	5,800
Algae	95,000

Source: Agriculture and Agri-Food Canada biweekly bulletin – October 27, 2006 Note: 1 hectare = 2.471 acres

Programs and standards supporting the industry in Canada

In 2008, Greenhouse gas (GHG) emissions from the transportation sector contributed approximately 27 per cent to Canada's inventory of emissions. In order to curb this trend, new Renewable Fuels Regulations were proposed. These regulations require two per cent renewable content in diesel fuel and heating distillate oil effective July 1, 2011. Biodiesel-blended diesel fuel is already available in some western provinces, such as British Columbia, Manitoba and Alberta resulting in minimal impacts in these areas. For more info, go to http://canadagazette.gc.ca/rp-pr/p1/2011/2011-02-26/html/reg3-eng.html.

Canadian renewable content standards are targeted at five per cent for gasoline starting on September 1, 2010. This percentage represents approximately 2.1 billion litres of ethanol per year. According to the Canadian Renewable Fuels Association, this level of renewable content would reduce greenhouse gases by more than four million tonnes, the equivalent of taking more than one million cars off the road.

The federal government also committed to ensuring a minimum renewable content of two per cent in diesel and heating oil by 2012, for a total production of approximately 600 million litres of biodiesel per year.

According to estimates by Agriculture and Agri-Food Canada, feedstock requirements to meet the renewable content standards are in the range of 4.6 million tonnes of corn and 2.3 million tonnes of wheat for ethanol. Biodiesel production is calculated to require 600,000 tonnes of canola and 30,000 tonnes of soybeans.

Learn about Canadian government support programs at:

www.ecoaction.gc.ca/ecoagriculture/index-eng.cfm

www.ecoaction.gc.ca/ecoenergy-ecoenergie/biofuelsincentive-incitatifsbiocarburants-eng.cfm

www.oee.nrcan.gc.ca/transportation/business/fed-gov-doing.cfm?attr=16

www.oee.nrcan.gc.ca/transportation/personal/directory.cfm?attr=16

On March 28, 2007, Finance Minister Jim Flaherty commented on the government's commitment to clean, renewable fuel production. Read the news release at www.fin.gc.ca/n07/07-027-eng.asp.

In 2008, then-Governor General Michaëlle Jean, spoke of the government's continued support of biofuels as well as other initiatives to tackle climate change and preserve Canada's environment. Read an excerpt from the speech at www.sft-ddt.gc.ca/eng/media.asp?id=1378.

Canada's 2011 federal budget, as part of Canada's Economic Action Plan, the next phase in the clean technology sector, has allotted $40 billion over two years for grants to Sustainable Development Technology Canada (SDTC). This supports clean air technology projects and also a climate change component of the SD Tech Fund.

In 2009's federal budget $1 billion was allocated for The Green Infrastructure Fund. The fund focuses on a few, large scale, strategic infrastructure projects. The majority of funding has already been allocated. As of July 2011, Infrastructure Canada had received sufficient proposals for the remaining funds. Aside from existing programs, these funds provide economic stimulus while promoting a more sustainable and cleaner energy future for Canadians. The Government of Canada has committed that Canada's total GHG emissions be reduced by 17 per cent from 2005 levels by 2020.

Learn more at:

www.actionplan.gc.ca/initiatives/eng/index.asp?initiativeID=122&mode=3

www.actionplan.gc.ca/initiatives/eng/index.asp?mode=7&initiativeID=115

www.buildingcanada-chantierscanada.gc.ca/creating-creation/gif-fiv-eng.html

The Government of Saskatchewan launched a five-year renewable diesel program that will provide a 13 cent per litre grant to eligible producers beginning in April 2011. Renewable diesel is a fuel substitute that is made from renewable materials including feedstock from agriculture and forest biomass. The program will provide a new market for off-grade canola.

For more information, visit www.enterprisesaskatchewan.ca/Default.aspx?DN=c0654c3-1592-4d72-a072-aa279720a3fa.

Biofuel in the United States

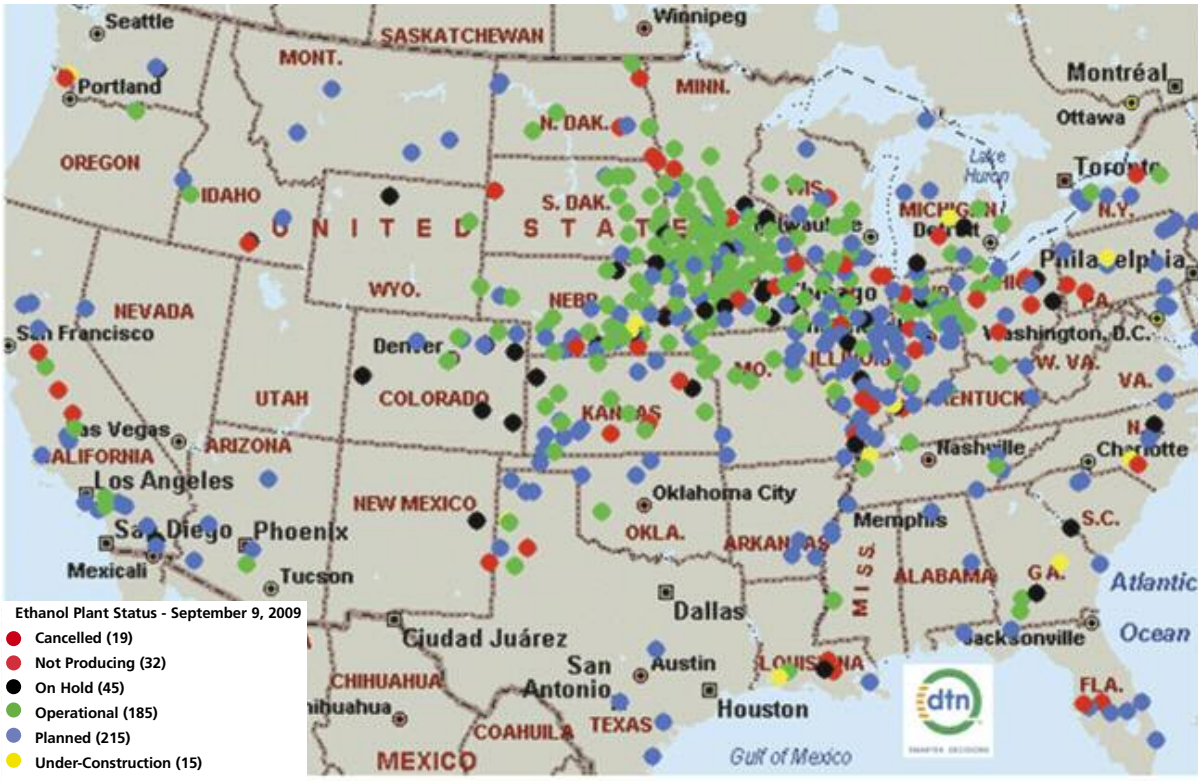
Have we witnessed the perfect storm? With parties representing agriculture, energy and environment in the U.S. government coming together, the ethanol industry has evolved at an unprecedented pace over the past few years. The coalition is an extremely powerful policymaking group.

In December 2007, The Energy Independence and Security Act became law, setting a mandatory renewable fuel standard that requires the U.S. production of at least 36 billion gallons of biofuel by 2022. The government has put forward such incentives as:

- blenders' credits, in which oil refineries, called blenders, receive a subsidy of 45 cents per gallon (reduced by six cents on January 1, 2009 under the 2008 Farm Bill from 51 cents per gallon) on ethanol in 2009 and 2010 and $1 per gallon on vegetable oil biodiesel
- subsidizing ethanol in corn belt states with a number of programs, from refineries' grants to tax reductions
- loan guarantees for the construction of ethanol plants
- a small ethanol producer credit of up to $1.5 million per producer under 60 million gallons per year
- a cellulosic biofuel producer tax credit of up to $1.01 per gallon

Under the 2008 Farm Bill, which became law on June 18, 2008, the current 54-cent-per-gallon ethanol import tariff has been extended for two years through 2010.

These initiatives have resulted in an explosion of plant construction in the U.S. In September 2009, there were



Source: DTN Ethanol Center
www.dtnethanolcenter.com/index.cfm?show=10&mid=16&pid=5

***Alaska has one ethanol plant in the planning stage**
***Hawaii has one in the planning stage and one is on hold**

185 operational ethanol plants with 215 more planned and 15 under construction. At the same time, there were about 173 commercial-scale biodiesel plants in operation.

U.S. President Barack Obama has stated that he is a strong supporter of efforts to reduce the country's dependence on foreign oil. He endorses the development of renewable energy including biofuels, solar and wind energy. He supports biofuel tax incentives and the renewable fuels standard. His goal is to see 60 billion gallons of U.S. fuel come from biofuels by 2022.

Biofuel subsidies, what does the future hold?

A recent study suggests that the world's poor would benefit even more than U.S. taxpayers if governments stopped subsidizing the transformation of food into fuel. The new study requested by G-20 leaders last November, says biofuel subsidies are among the leading causes of agricultural price shocks. The report states, "between 2000 and 2009, global output of bio-ethanol quadrupled and production of biodiesel increased tenfold," a spike which "has been largely driven by government support policies."

Ethanol currently has three levels of government support: a 45-cent-per-gallon tax credit paid to refiners; a 54-cent-per-gallon tariff that blocks cheaper and more energy-efficient, sugar-based ethanol imports; and a federal regulation that, in effect, requires a 10 per cent blend of ethanol into gasoline. The report suggests that, with continued government support, the price of coarse grains could increase by as much as 13 per cent, oilseeds by seven per cent and vegetable oil by 35 per cent each year between 2013 and 2017. Currently, biofuel production absorbs 20 per cent of the world's sugar cane, 9 per cent of the world's oilseeds and coarse grains, and 4% of the world's sugar beets – and, more than 40 per cent of U.S. corn production. To learn more, visit www.nuffieldbioethics.org/news/g20-report-addresses-effect-biofuels-food-prices.

While Congress is not ready to abandon ethanol subsidies altogether, they are testing the waters with an amendment to the 2012 Agriculture Appropriations bill to prohibit federal funding of ethanol blender pumps and ethanol storage infrastructure. The amendment was passed by the House on the same day that Act S1185 was thrown out by the Senate. Some blame the biofuels industry for increased food prices, but another study[1] funded by the Renewable Fuels Association suggests that statistical evidence does not support this theory. In this study, other supply-and-demand factors outlined, such as weather events, decline in the U.S. dollar, strong export demand, and steady feed demand are responsible for placing upward pressure on corn prices in recent years.

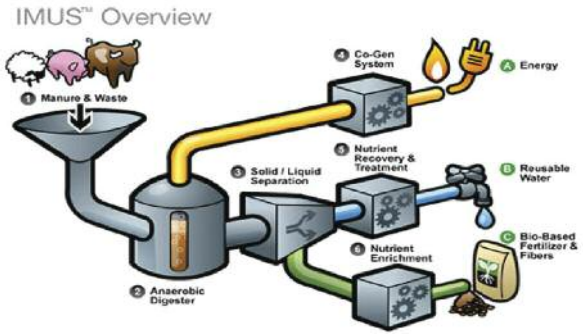
On June 16, 2011, the U.S. Senate voted on the Ethanol Reform and Deficit Reduction Act (S1185) bill which proposed to strip the industry of federal incentives in order to help with the U.S. budget deficit. If passed, the bill would have saved $6 billion annually. While many were in favour of cutting the 45 cent-per-gallon tax credit and the 54 cent-per-gallon tariff on imported ethanol, support was not enough to advance the controversial "kill-bill" amendment. According to Agriculture Secretary, Tom Vilsack, "We need reforms and a smarter biofuels program, but simply cutting off support for the industry isn't the right approach."

Europe has new sustainable biofuel guidelines set in Brussels on July 19, 2011. In order to receive government support or count towards mandatory national renewable energy targets, biofuels used in the EU, whether locally produced or imported, have to comply with sustainability criteria. The greenhouse gas emissions over the whole production chain need to be at least 35 per cent lower compared to fossil fuels. To receive government support the biofuels crops must not be grown on rainforest, grassland or land with a unique ecosystem.

In May 2011, the European Union Council of Ministers imposed an anti-dumping duty on U.S. produced biodiesel imports into the EU through Canada. The penalty also applies to imports of U.S. diesel blends containing less than 20 per cent biodiesel. An investigation into whether U.S. biodiesel was being shipped through Canada in order to avoid duties was launched following a complaint by the European Biodiesel Board (EBB). For more information, go to www.ebb-eu.org/EBBpress.php.

[1] "Corn, Commodity, and Consumer Food Prices" – http://www.ethanolrfa.org/news/entry/new-analysis-continues-to-disprove-food-v.-fuel-canard/

Food for thought, fuel for thought or both?



Source: Highmark Renewables (www.Highmark.ca)

The food and energy economies, historically separate, are competing. To varying degrees and with varying opinions, countless biofuel-related studies, papers and online discussions touch on the topic of food versus fuel.

Positions vary significantly from one extreme to the other. Some argue that non-food use of grains and oilseeds will contribute to mass starvation. Those at the other end of the spectrum insist that grain companies and farmers are resourceful enough to increase yields and acres so that supply will increase to meet all demands. There is also a school of thought that says agricultural commodity pricing has been too low for too long.

The economics behind international price movements are complex and include many variables beyond ethanol production. The conclusions of studies can also vary greatly because of different research methodologies and base data. However, in the April 2007 World Economic Outlook, the International Monetary Fund reported that food prices rose by 10 per cent in 2006, mainly due to the rise of corn, wheat and soybean oil prices in the second part of the year.

On the high end, the World Bank calculated in a working paper released in July 2008 that 70 to 75 per cent of the increase in internationally traded food prices from January 2002 to June 2008 was due to biofuels and their cascading effect on grain stocks, land use shifts, export bans and speculative activity.

In an October 2008 news release, the Canadian Renewable Fuels Association reported that an independent forecasting company concluded that record oil prices and commodities speculation, rather than actual ethanol production, were to blame for increases in the price of food. Global food price increases moderated after June 2008 and Chicago Board of Trade corn futures decreased dramatically from summer 2008 levels of nearly $8 per bushel to around $4 per bushel in mid-November 2009.

The bio-economy uses **renewable biomass (biological feedstock)**	and/or **bio-processes and bio-refining**	to manufacture **diverse new or existing bio-products**
Trees	Bio-catalysis (enzymes)	**Bio-energy:**
Agricultural crops	Fermentation (micro-organisms)	Biofuels
Agricultural residues	Extraction	Electricity
Animal wastes	Gasification	Heat
Municipal wastes	Co-firing	**Manufactured products:**
Certain industrial wastes	Pyrolysis	Chemicals
Fish, animals	At least 10 patented technologies	Bio-materials (transformer fluid)
Algae and water plant life	like epoxidation and ozonolysis	Pharmaceuticals
Any organic residue		

Source: Agriculture and Agri-Food Canada; Ontario Agri-Food Technologies

[1] Source: Highmark Renewables (www.highmark.ca)

In this new economy, if the fuel value of grain exceeds its food value, the market will move it into the energy economy.

Based on currently viable ethanol production technologies, plant breeders are focused on developing higher-yield crop varieties. Livestock, pork and poultry producers are also increasingly looking for feed substitutes and solutions, some of which come from biofuel byproducts.

Creating domestic markets for any surplus grains in North America could also curb export programs, which some argue undermine agriculture production in developing nations. In addition, any shift in the feedstock of choice for biofuel or relaxation of import restrictions on foreign biofuel could have a huge impact on the supply and price of corn, wheat or soybean oil and corresponding food prices in the future.

Emerging second and third generation biofuel technologies are using agricultural waste instead of the grain itself. There is even talk of fourth generation technologies pulling Co2 directly from the sky. Once these new technologies are fully realised the economics behind biofuels may change. The end goal is to assist in filling demand for food and biofuel inputs, but changes take time. The end goal is to assist in filling demand for food and biofuel inputs, but changes take time.

Other bio-related terminology

Biogas for electricity: another type of biofuel

Anaerobic digestion of biomass, such as manure or organic wastes, produces a combustible fuel called biogas. Biogas consists primarily of methane and carbon dioxide. Depending on the system design, biogas can be combusted to run a generator producing electricity and heat, or it can be burned as a fuel in a boiler or other burner. This energy can be used on the farm or sold to electricity distribution companies.

Definitions

- Bio-economy is described by AAFC[1] as the use of biological processes and bio-resources to generate sustainable economic growth while improving human and environmental health.
- Bio-refinery is where biomass is converted to one or many bio-based products.
- Biomass or bio-resources are any organic materials as outlined in the table below.
- Cogeneration, or co-gen or combined heat and power (CHP), is a highly efficient means of generating heat and electric power at the same time from the same energy source.
- Tri-generation is the simultaneous production of cooling, heating and power in one process, and the most environmentally friendly method of generating power and energy.

Interested in trends in Canadian energy sources and what they can mean to your business? Read the energy edition of Knowledge Insider: www.fcc-fac.ca/en/LearningCentre/Knowledge/Energy/energy_e.asp.

Considerations, costs and the market

- Biofuels need to be priced competitively with petroleum fuels at the pump, but there is no correlation between the two price structures as biofuel inputs are priced as agricultural commodities.
- Canadian ethanol producers and those working on business plans need to be prepared for price fluctuations in:
  - feedstock
  - byproducts like glycerine and DDG
  - natural gas
  - oil
  - cost of water use or future water charges
  - cost of disposal of materials like a surplus of DDG, if byproduct markets are adversely affected
  - supply and demand for inputs and outputs that are already subject to fluctuating market forces and further impacted by artificial measures like mandated requirements, incentives and subsidies
  - new technologies like cellulosic ethanol, new ways to meet environmental targets through nuclear, wind or further emissions controls on vehicles
- Capital costs are changing rapidly, and it's difficult to keep on top of them. Construction and the cost of stainless steel are huge factors. Unless fixed price contracts were established at the onset, by the time construction is ready to take place, some proposals are no longer viable.
- The capacity of state-of-the-art fuel ethanol plants is in the range of 150 million to 200 million litres per year.
- Large operations can be successful because they may be able to mitigate risks in biofuel production in ways that smaller operations or producer groups may not. Large plants can also take advantage of economies of scale, as shown in some American economic studies of biofuel manufacturing. It is estimated that tripling plant size – from 55 to 150 million litres per year for dry-mill plants and from 110 to about 375 million litres for wet-mill plants – reduces operating costs by 15 to 20 per cent and capital costs by up to 40 per cent.
- Mid-sized plants can also be efficient because of smaller batch sizes that are easier to control. Grain supply and byproduct output can be right-sized for the local area, reducing price risk of byproduct revenue and feedstock availability.
- Other critical success factors of ethanol plants include: ability to weather ups and downs in prices of ethanol, gas, and corn or other feedstock; having specialists in hedging and using the options and natural gas markets; water availability; an understanding of transportation availability, costs and distances for feedstock, products and byproducts.
- There have been some challenges in moving from the business plan to being operational. Outputs must pass quality control and be 99.9 per cent pure. Some are having water and acid issues.
- It's important to ensure that ethanol DDG markets are secure and within a certain proximity of the plant. Where surpluses exist, some firms have ended up paying large sums to dispose of their DDGs. There can also be challenges with DDGs for shipping because of moisture and spoilage. Integrated plants are insulated from natural gas prices because the DDGs are used on-site and there is no reliance on natural gas and its fluctuating prices to dry the grains.
- Business plans need to recognize their margin's susceptibility to ranges in ethanol, feedstock, oil and natural gas prices, and need to have practices in place for mitigating risk around price, supply and demand. Business plans must also account for the plant location as it relates to feedstock sourcing and proximity to transportation networks.

Challenges for the industry

Ontario Grain Farmer: State of the Biofuels Industry
www.ontariograinfarmer.ca/MAGAZINE.aspx?aid=77

Challenges and Barriers to Growth of Biofuels Industry (U.S. focus)
www.usbiomassboard.gov/pdfs/p8_maher_presentationfaca_b.pdf

Growing Beyond Oil – Delivering our Energy Future: A Report Card on the Canadian Renewable Fuels Industry:
www.greenfuels.org/en/resource-centre.aspx?wwparam=1319491571

- In December 2006, the Government of Canada published its intention to require two per cent renewable content in diesel fuels and heating oil.
- The CRFA has formally requested a start date of April 1, 2011. This would result in a first compliance period ending on December 31, 2012. This would provide regulated parties a 21-month initial compliance period.
- No start date or first compliance period has been established for the two per cent renewable mandate.
- The two per cent renewable mandate would require 500 million litres per year of renewable diesel use.
- Any delay will impact existing biodiesel production and investment decisions on planned production capacity expansion.
- In addition, currently, financing for a number of biodiesel projects is being withheld by lenders due to a lack of planning certainty regarding the two per cent RFS implementation schedule.
- Implementation might mean that jobs may be lost, new investment may be at risk and valued momentum may stall.

Read the PDF at the link below:
www.greenfuels.org/en/resource-centre.aspx?wwparam=1319491571

Resources

Natural Resources Biofuels (Renewable Fuels)
What the government of Canada is doing:
www.oee.nrcan.gc.ca/transportation/business/fed-gov-doing.cfm?attr=16

Canadian Renewable Fuels Association
www.greenfuels.org

Wikipedia, ethanol fuel
www.en.wikipedia.org/wiki/Ethanol_fuel

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www.en.wikipedia.org/wiki/Biodiesel

U.S. Department of Agriculture
Ethanol Expansion in the United States – How Will the Agricultural Sector Adjust, May 2007,
www.ers.usda.gov/Publications/FDS/2007/05May/FDS07D01/fds07D01.pdf

Center for Agricultural and Rural Development, Iowa State University
Emerging Biofuels: Outlook of Effects on U.S. Grain, Oilseed, and Livestock Markets, May 2007,
www.card.iastate.edu/publications/DBS/PDFFiles/07sr101.pdf

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www.dtnethanol.com

International Monetary Fund
World Economic Outlook – Spillovers and Cycles in the Global Economy, April 2007,
www.imf.org/external/pubs/ft/weo/2007/01/pdf/text.pdf

Renewable Fuels Association
www.ethanolrfa.org

National Biodiesel Board
www.biodiesel.org

ecoENERGY for Biofuels Program
http://oee.nrcan.gc.ca/transportation/alternative-fuels/programs/ecoenergy-biofuels/biofuels-intro.cfm

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