

Potential challenges and risks of bio-energy production for developing countries

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Following pioneer Brazil the world is seeing a dazzling growth in bioenergy production derived from plants and other biomass. China has an ambitious programme of its own and several African countries have set their sights on a biofuels future. The European Union as a whole today is focused on biofuels. This article summarizes the recently released outcomes of a high-level global study on the global prospects of biofuels in this century.

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foto: agromedia/boethling

The world is on the verge of unprecedented growth in the production and use of biofuels (liquid fuels derived from plants and other biomass). Rising oil prices, national security concerns, the desire to increase farm incomes, and a host of new and improved technologies are propelling many governments to enact powerful incentives for the production and use of these fuels. This, in turn, is sparking a large new wave of investment

The two most prevalent biofuels are ethanol, currently produced from sugar or starch crops, and biodiesel, produced from vegetable oils or animal fats. World production of ethanol more than doubled between 2000 and 2005, while production of biodiesel quadrupled (see Figure). In 2005 alone, ethanol production rose 19 percent and biodiesel production jumped 60 percent (starting from a much smaller base). In total, biofuels now provide 1 percent of the world's liquid transport fuels. Brazil and the United States together account for 90 percent of the world's fuel ethanol production, thanks to strong government support that began in the 1970s (see Table 1). In Brazil, ethanol derived from sugar cane claims 40 percent of the light fuels market and has helped the country reduce its dependence on import-

As biofuels become a major commodity larger farms and agrobusinesses will play a growing role. The right policies are needed to promote small-scale biofuel production.

ed oil. The European Union – Germany in particular – dominates world biodiesel production and use (see Table 2). As oil prices and environmental concerns have risen in the past few years, investment in new biofuel facilities has mushroomed in Brazil, Europe, and the United States. Among the countries that have made major commitments to biofuels in recent years are China, Colombia, India, the Philippines, and Thailand.

The promise of new technologies

Biofuel production has become substantially more efficient over the last 25 years as Brazil and the United States have scaled up their industries. In the US, ethanol from corn is now competitive with gasoline, while in Brazil sugar cane ethanol is far less expensive than gasoline. Such incremental gains are likely to

continue for years to come. However, the greatest potential for biofuels lies in the development of new technologies that will significantly expand the range of biomass feedstock, increase conversion efficiencies, and lower production costs.

One of the innovations expected to boost biofuel production dramatically is the ability to generate the fuels from cellulosic materials such as plant stalks, leaves and wood. This includes producing ethanol through the use of enzymes, and synthetic diesel via a gasification/FischerTropsch process pioneered in Germany and South Africa. These technologies, which are still relatively expensive, are close to being introduced commercially and will make it possible to create liquid fuels from agricultural, municipal, and forestry wastes, as well as from non-food perennial crops such as switchgrass that can be grown on degraded lands with modest water and fertilizer requirements (see also article Christine Clashausen on pages 7-9)

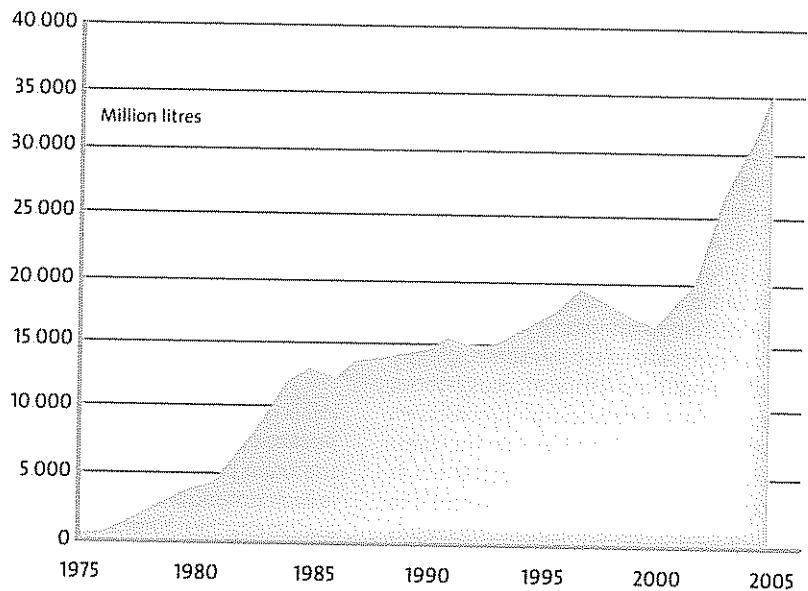
How large is the potential?

Policymakers around the world are asking how large a share of the world's liquid fuel supply can be provided by biofuels. While no definitive answer is yet possible, there is no doubt that these fuels could potentially account for a significant share of total fuel use. If combined with greatly increased vehicle fuel economy, strengthened public transportation, and new automotive technologies such as plug in hybrids, biofuels can play a central role building a sustainable transportation sector.

A recent joint study by the US Departments of Agriculture and Energy found advanced biofuels could substitute for more than one third of US transport fuel use within the next 25 years. The biofuel potential in Europe is estimated to be in the range of 20 to 25 percent even assuming that strict sustainability criteria are used for land use and crop choice and that bioenergy use in non-transport sectors grows in parallel. Many small developing countries with favourable growing climates could likely meet all of their liquid fuel needs with biofuels.

The efficiency of the conversion process and the availability of suitable land and water resources for biofuel production will be the primary limitations to the future contribution of these fuels. Among the potential challenges that will need to be addressed as markets expand are growing competition for land and water resources, aquifer depletion, soil erosion, and the loss of biologically rich ecosystems, including tropical forests. Policymakers will also

World fuel ethanol production, 1975-2005



Source: Christoph Berg

need to keep an eye on the potential for biofuels to drive up food prices, a trend that could be beneficial to farmers but could also make it more difficult to meet the food needs of the urban poor.

How «green» are biofuels?

One of the great promises of biofuels is their potential to provide an environmentally sustainable alternative to the petroleum fuels that have exacted such a heavy

toll on the planet. Biofuels do have the ability to reduce pollution, but they can also exacerbate a range of other environmental problems if not developed very carefully.

Biofuels are essentially a way to convert solar energy into liquid form via photosynthesis. One of the greatest concerns raised about them, however, is their net energy balance i.e. whether production of the fuels requires more energy inputs (particularly fossil energy, in the form of fertilizers, tractor fuels, processing energy, etc.) than is ultimately contained in the biofuels themselves. Advances in technology have improved production efficiency, giving virtually all current biofuels a positive fossil energy balance (see Table 3, page 15). Not only is the efficiency of the conversion process steadily improved, but bioenergy is increasingly being used for feedstock processing as well. Both approaches reduce the amount of fossil fuels used to convert crops into biofuels. Transportation is responsible for 25 percent of the world's energy related greenhouse gas (GHG) emissions, and this share is rising. Biofuels have the potential to significantly reduce GHG emissions, particularly with the development of advanced biomass technologies that rely on agricultural wastes and cellulosic crops (see Clashausen on page 9). If cultivated in the right way, these crops can actually sequester carbon in the soil, helping to reduce the amount in the atmosphere. However, if biofuels are produced from low-yielding crops, grown with heavy inputs of fossil energy, they have the potential to generate as much or more GHG emissions, than petroleum fuels do.

Table 1: Top five fuel ethanol producers

| Country | Production* |
|----------------|-------------|
| Brazil | 16,500 |
| United States | 16,230 |
| China | 2,000 |
| European Union | 950 |
| India | 300 |

*million litres in 2005; Source: Christoph Berg

Table 2: Top five biodiesel producers

| Country | Production* |
|---------------|-------------|
| Germany | 1 920 |
| France | 511 |
| United States | 290 |
| Italy | 227 |
| Austria | 83 |

*million litres in 2005; Source: FO Licht

Blending biofuels with petroleum fuels generally brings a reduction in vehicle emissions of sulphur, particulates, and carbon monoxide. In developing countries, where vehicle fleets tend to be older and more polluting, ethanol and biodiesel could play a significant role in improving urban air quality and helping to phase out lead-based and otherwise toxic fuel additives.

One of the risks of biofuels is the potential for fuel crops to be grown on ecologically fragile lands, accelerating soil erosion and the depletion of aquifers. In addition, bio-fuel crops could destroy some of the world's remaining tropical ecosystems, home to vast treasures of biodiversity. Ecologists point with alarm to the massive Brazilian soybean crop that is encroaching on the outer fringes of the Amazon Basin. While most of this crop is currently used as cattle feed, soybeans are considered a significant potential bio-diesel source. Large-scale use of palm oil, the most economical feedstock for bio-diesel today, could lead to similar problems – tropical forests in southeast Asia have already been cleared to make room for palm plantations, mainly as a source for cooking oil.

Once technology allows for more widespread production of biofuels from grasses, these perennial crops could be used to protect lands that are vulnerable to erosion and to restore lands degraded by grazing. For such benefits to be realized, the expansion of biofuels production will

Information on the Biofuels for Transportation study

Biofuels for Transportation: Global Potential and Implications for Sustainable Agriculture and Energy in the 21st Century was produced by the Worldwatch Institute contracted by the German Agency for Technical Cooperation (GTZ, contact: Dr. Elke Foerster) and the Agency of Renewable Resources (FNR) with funding from the German Federal Ministry of Food, Agriculture, and Consumer Protection (BMELV). The study was launched in Berlin and Washington in May/June 2006. The findings and recommendations are based on the work of an international, interdisciplinary team of researchers, building on the input from detailed country studies carried out by the GTZ in Brazil, China, India, and Tanzania, and do not necessarily reflect the views of the Ministry. The country studies and a longer summary of the report is available at www.gtz.de/biofuels-conference.

need to be accompanied by a new generation of strict land-use laws, particularly in countries with tropical forests that are at risk of destruction. The experience of the world's leading biofuel producers has shown that in the absence of strong, well implemented policies, environmental degradation and social conflicts can result. Governmental policy decisions, and the resolve to see them properly enacted, are therefore critical in determining the net ecological impacts of biofuels.

A new future for rural communities?

Another promise of biofuels – and one of the main political engines behind them – is their potential to increase farm incomes and strengthen rural economies. The ability to grow energy crops in addition to food and fibre crops could transform agriculture more profoundly than any development since the green revolution.

The dispersed nature of agriculture makes it unlikely that biofuel production will become as centralized as the oil industry. However, as biofuels become a major commodity, larger farms and agribusinesses will play a growing role. Agricultural resources are unevenly distributed in many countries, and the ability of small farmers to benefit from biofuels will be determined in part by broader decisions about land reform and tax policies. If smaller-scale production is to be nurtured as a way of distributing the economic benefits of biofuels, government policies will be needed to encourage this.

The production of biofuels has already begun to affect agricultural commodity markets. About 50 percent of Brazil's sugar cane crop was dedicated to producing ethanol in 2005, and this demand has helped drive up the price of sugar worldwide.

In the United States, 15 percent of the corn crop was used to produce ethanol in 2005, and in 2006 the volume of corn used for ethanol is expected to equal total US corn exports. In the European Union, more than 20 percent of the rapeseed crop was tapped to provide about 1 percent of EU transport fuel in the form of biodiesel in 2005.

As a refined product, biofuels can add value to raw agricultural goods. The biofuel industry has already become an engine of economic development and job creation in south-central Brazil. The ethanol industry is credited with directly providing nearly half a million jobs in Brazil. These benefits are now likely to spread internationally, with the greatest impact occurring in agriculturally based economies with favourable conditions for growing

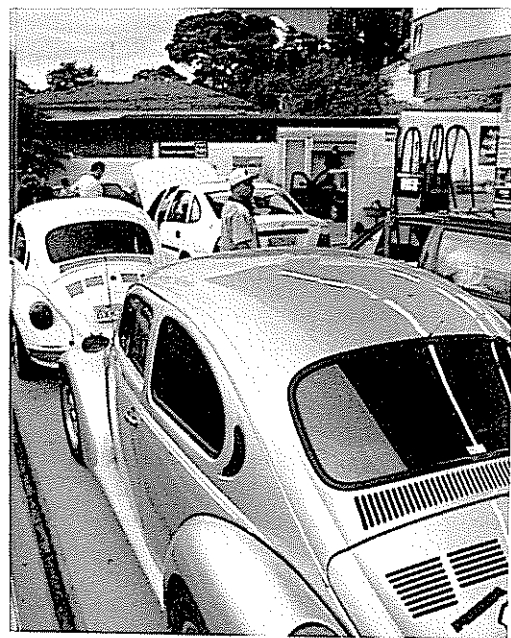


biofuel crops. How widely the benefits are shared will depend in part on whether farmers, and producers of forestry materials own portions of the biofuel processing and distribution industry (e.g. via co-ops or other ownership structures). Re-circulating biofuels revenues in the local economy can maximize the economic benefits of shifting away from imported fuels. In countries and regions where access to modern forms of energy is limited or absent, government and development agency support for small-scale biofuel production can help provide clean, accessible energy that is vital for rural development and poverty alleviation, helping to achieve the United Nations' Millennium Development Goals.

Energy security and trade

The world's current transportation systems are highly dependent on petroleum, a resource that is concentrated in relatively few countries. This has left the global economy at risk of disruption, particularly with oil supplies as tight as they are now. Biofuels promise to bring a much broader group of countries into the liquid fuel business, diversifying supplies and reducing the risk of disruption. And because biofuels can be produced in most regions of the globe, the risks inherent in transporting fuel over long distances will also be reduced.

Of the world's 47 poorest countries, 38 are net oil importers, and 25 of these import all of their oil. In many smaller and poorer nations, 90 percent or more of the total energy used comes from imported fossil fuels. In some cases, a large share of the foreign exchange earnings goes to pay for oil, and much of the government revenue is used to subsidize kerosene and diesel



In Brazil sugar cane ethanol is far less expensive than gasoline

fuel. Yet many of these same countries have substantial agricultural bases and are well suited to growing sugar cane, palm oil, and other highly productive energy crops. Some of these countries even have the potential to become net exporters of liquid fuels. International trade in biofuels is currently limited by the fact that many countries maintain tariffs on the fuels, both to protect their domestic industries and to assure that their substantial domestic subsidies are not used to support the industries of other nations. This is likely to change in the year ahead. Many of the rich countries that consume large quantities of transportation fuels (in Europe and Japan, for example) have limited land available for growing biomass feedstock, which leaves them unable to generate more than a fraction of their transportation fuels from domestically produced biofuels. Some countries may decide to eliminate biofuel tariffs on a bilateral basis with individual trading partners. The United States, for example, already allows the preferential import of ethanol from the Caribbean. Sweden has indicated that it wants to encourage large-scale biofuel imports. Ongoing negotiations at the World Trade Organization (WTO), aimed at liberalizing trade in agricultural commodities, are expected to address the potential for reducing biofuel trade barriers, offering an opportunity for countries to generate new agricultural revenue streams to offset loss of trade-distorting subsidies.

Policy recommendations

For biofuels to make a large and sustainable contribution to the world energy economy, governments will need to enact

consistent, long-range, and coordinated policies that are informed by broad stakeholder participation. Policy priorities include:

- **Strengthen the market.** Biofuel policies should focus on market development, creating an enabling environment based on sound fiscal policy and support for private investment, infrastructure, development, and the building of transportation fleets that are able to use the new fuels.
- **Speed the transition to next generation technologies.** Policies are needed to expedite the transit into the next generation of feedstock and technologies that will enable dramatically increased production at lower cost, while reducing negative environmental impacts.
- **Protect the resource base.** Maintaining productivity, water quality, and a myriad of other ecosystem services is essential. National and international environmental sustainability principles and certification systems are important for protecting resources as well as maintaining public trust in the merits of biofuels.
- **Encourage broad rural economic benefits.** Fiscal and land use policies will help determine how broadly the economic revenues from biofuels are spread and how they will shape rural economies.
- **Facilitate sustainable international biofuel trade.** Continued rapid growth of biofuels will require the development of a true international market in these fuels, unimpeded by the

trade restrictions in place today. Freer movement of biofuels around the world should be coupled with social and environmental standards and a credible system to certify compliance.

- **Efficiency and improved public transport.** Biofuels should be developed within the context of a broad transformation of the transport sector aimed at dramatically improving transport efficiency.

Supportive government policies have been essential to the development of modern biofuels over the past two decades. Countries seeking to develop domestic biofuel industries will be able to draw important lessons – both positive and negative – from the industry pioneers: Brazil, the United States, and the European Union. Among the successful policies that have fostered biofuel production and use are:

- blending mandates,
- tax incentives,
- government purchasing policies,
- support for biofuel-compatible infrastructure and technologies,
- R&D (including crop research, conversion technology development, feedstock handling, etc.),
- public education and outreach,
- reduction of counterproductive subsidies,
- investment risk reduction – particularly for next-generation facilities.

All policies are encompassing gradual reduction of supports as the market matures.

Table 3: Fossil energy balances of selected fuel types

| Fuel (feedstock) | Fossil energy balance |
|---------------------------------|-----------------------|
| Cellulosic ethanol | 2-36 |
| Biodiesel (palm oil) | -9 |
| Ethanol (sugar cane) | -8 |
| Biodiesel (waste vegetable oil) | 5-6 |
| Biodiesel (soybeans) | -3 |
| Biodiesel (rapeseed, EU) | -2.5 |
| Ethanol (wheat, sugar beets) | -2 |
| Ethanol (corn) | -1,5 |
| Diesel (crude oil) | 0.8-0.9 |
| Gasoline (crude oil) | 0.8 |
| Gasoline (tar sands) | -0,75 |

Note: Figures represent the amount of energy contained in the listed fuel per unit of fossil fuel input. The ratios for cellulosic biofuels are theoretical. All sources are available in the full report.