On the future relevance of biofuels for transport in EU-15 countries

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Abstract

The discussion on the promotion of biofuels in the European Union (EU) countries is ambiguous: benefits like reduction of greenhouse gas emissions and increase of energy supply security are confronted with high costs and bad ecological performance. On the one hand, the EU has set the goal of reaching 10% biofuels by 2020. On the other hand, there are continuous persisting discussions to undermine this goal. The core objective of this paper is to investigate the market prospects of biofuels for transport in the EU-15 in a dynamic framework till 2030. While the economic prospects for the first generation of biofuels are rather promising – cost-effectiveness under current tax policies exists already – their potential is very restricted especially due to limited crops areas. Moreover, the environmental performance of first generation biofuels is currently rather modest. Second generation biofuels will – in a favourable case – enter the market between 2020 and 2030. However, their full potential will be achieved only after 2030.

Keywords: biofuels, costs, potential, CO2-emissions.

1 Introduction

The discussion on the promotion of biofuels is ambiguous: benefits like the reduction of greenhouse gas emissions and increase of energy supply security are confronted with high costs and bad ecological performance. Great hopes are currently put on biofuels second generation. The major advantage of the second generation of biofuels is that they can also be produced from resources such as ligno-cellulose based wood residues, waste wood or short-rotation copies, which are not dependent on food production-sensitive crop areas.
The core objective of this paper is to investigate the market prospects of biofuels for transport in the EU-15 in a dynamic framework till 2030. This work extends the analysis conducted by Ajanovic and Haas [1]. With respect to the literature the most important analyses are summarized by Panoutsou et al. [2] and Ajanovic and Haas [3].

The following categories are considered:

- **Biofuels 1st generation**: biodiesel from rapeseed, sunflowers, soybeans (BD-1); bioethanol from maize, wheat, sugar beet (BE-1); biogas (BG-1) from manure, grass and green maize.
- **Biofuels 2nd generation**: biodiesel from biomass-to liquids (BTL) with Fischer-Tropsch process (BD-2); bioethanol from lingo-cellulose (BE-2); biogas (BG-2) from synthetic gas from biomass.

These biofuels are analysed with regard to potentials, costs and market prospects, and the environmental impacts. This analysis is based on:

- possible developments of fossil energy price levels and energy demand;
- technological learning effects (based on global developments);
- environment, energy and transport policies on EU level.

## 2 Method of approach

The method of approach of our analysis consists of the following major steps:

### 2.1 Assumptions

Major assumptions for the modelling analysis are:

- Increases in fossil fuel prices are based on IEA [4].
- The development of alternative fuel costs is based on international learning rates of 25% and national learning rates of 15% regarding the investment costs of these technologies.
- All cost figures are in prices of 2008.
- No explicit carbon costs are included.
- Regarding the future land use, it has been assumed that maximal 30% of arable land, 10% of pasture land, 10% of meadows and 3% of wood and forest wood residues could be used for feedstock production for biofuels by 2030. An additional 5% of wood industry residues could be used for biofuels production.

### 2.2 Calculation of biofuel costs

Next the biofuel production costs are calculated. The following components are considered to calculate the costs of biofuels (see also Ajanovic and Haas [1]):

- Net feedstock costs ($C_{FS}$).
- Gross conversion costs ($GCC$).
- Distribution and retail costs ($DC$).
- Subsidies for biofuels ($Sub_{BF}$).
Firstly, the feedstock costs are identified for every year as the minimum production costs of all possible feedstocks considered for a specific area category (e.g. crop area) as:

\[ C_{FS} = \text{Min}(C_{FS} ; i = 1, \ldots, n) \]

where \( n \) is the number of possible feedstocks.

Finally, the total biofuel production costs (\( C_{BF} \)) for year \( t \) are calculated as follows (note that in these analyses no explicit carbon costs are included):

\[ C_{BF} = C_{FS} + GCC + DC - Sub_{BF} \]

### 2.3 Considering technological learning

Future biofuel production costs will be reduced through technological learning. Technological learning is illustrated for many technologies by so-called experience or learning curves. In the present model, specific investment costs \( IC_t(x) \) are split up into a part that reflects the costs of conventional mature technology components \( IC_{Con,t}(x) \) and a part for the new technology components \( IC_{New,t}(x) \):

\[ IC_t(x) = IC_{Con,t}(x) + IC_{New,t}(x) \]

For \( IC_{Con,t}(x) \), no more learning is expected. For \( IC_{New,t}(x) \), the following formula is used to express an experience curve by an exponential regression:

\[ IC_{New,t}(x) = a \cdot x_t^{-b} \]

where:
- \( IC_{New,t}(x) \) Specific investment cost of new technology components (€/kW)
- \( x_t \) Cumulative capacity up to year \( t \) (kW)
- \( b \) Learning index
- \( a \) Specific investment cost of the first unit (€/kW)
- \( IC_{Con,t}(x) \) Specific investment cost of conventional mature technology components (€/kW).

### 2.4 Maximum additionally usable areas

Then, for every area category considered, the maximum additional feedstock area per year (\( A_{FS,ADD,t} \)) is calculated as:

\[ A_{FS,ADD,t} = \phi(A_{FS,MAX,t} - A_{FS,t-1}) \]

with \( \phi \) the maximum percentage to be added or reduced per year.

### 2.5 Actual additional areas used

Additional feedstock areas are used for biofuels under the following conditions:

\[ A_{FS,t} = A_{FS,t-1} + A_{FS,ADD,t} \left[ C_{BF,t} \left( C_{FS,t} \right) \right] [1 + \tau_{BF}] < p_{FF,t} [1 + \tau_{FF}] \]
where
\[ \tau_{BF} \] tax on biofuels
\[ \tau_{FF} \] tax on fossil fuels
\[ p_{FF} \] price of fossil fuels (excl. tax).

In contrast, the feedstock area is reduced when
\[ A_{FS}_{t-1} = A_{FS}_{t-1}(1 - \phi)C_{BFt}(C_{FS_t}^{-1} + \tau_{BF}) > p_{FF}(1 + \tau_{FF}) \]

2.6 Assigning feedstock areas to biofuel categories

Feedstocks as well as feedstock areas may also be used for different biofuel categories. For example, some crop areas are suitable for oilseeds for 1st generation biodiesel (BD-1), for wheat for 1st generation bioethanol (BE-1) and for corn stover for 2nd generation bioethanol (BE-2). In this case the feedstock potentials or the feedstocks’ area are dedicated to the biofuels category which leads to the cheapest production costs per kWh biofuel:
\[ C_{FS_j} = \min(C_{FS_{j-1}}; j = 1, \ldots, m) \]

where \( m \) is the number of possible biofuels categories.

3 Potential

There follows a presentation of the results of cost development and corresponding quantities produced for 1st and 2nd generation biofuels in EU-15 up to 2030. These alternative energy carriers are based on bioenergy resources. An increasing use of biomass in the future in Europe could raise basically two questions: (i) the use of biomass requires large amounts of land which otherwise could be used for other purposes (e.g. food production); (ii) increasing biomass production might be in contradiction with sustainable issues.

The total land area in EU-15 is about 313 million hectares. This total land area could be divided in five groups: arable land (23%), permanent crop (3%), permanent meadows and pastures (16%), forest area (39%) and other land (19%) (see fig. 1).

However, with the second generation of biofuels, other land areas such as meadows, pastures and forest area could also be used for biofuels production, so that total land potential for alternative energy carriers could be significantly higher.

Due to the EU targets regarding biofuels share in total transport fuel consumption, it could be expected that total energy from biofuels by 2030 could be significantly higher than now.

As shown in fig. 1, the total energy from biomass in 2030 could be more than three times higher than now, 720 TWh. After about 2023 a significant and continuously increasing share of the 2nd generation bioethanol could be noticed. The share of 2nd generation biodiesel could be significant starting from 2027 due to the lower costs than conventional diesel (see fig. 2).
The increasing biofuels production based on domestic produced feedstock will occupy additionally land use (see fig. 3). However, for 2nd generation biofuels mainly non-crop area dependent resources will be used. These are: straw, waste wood and wood residues from the industry.

Figure 1: Land area in EU-15, 2008 [5].

Figure 2: Total energy from biofuels by biofuels category.

Due to the switch to the second generation biofuels, up to 2030 also significant poplar areas will be used for feedstock production (see fig. 4). The total land area for biofuels production by 2030 will be 64.2 million hectares.
The following figs 5 and 6 depict the corresponding development of production costs (inclusive and exclusive of 20% VAT) and the prices of fossil fuels, gasoline and diesel, inclusive and exclusive of taxes.

As can be seen from fig. 5 and fig. 6, the costs of 1st generation biofuels are decreasing only slightly even in the most favourable scenario. The major cost reduction is caused by learning effects for capital costs.

As described above, these learning effects are trigged mainly by international learning. They are in the present work based on the quantities development in the Referent (RS) and Alternative Policy Scenario (AS) of IEA [4].

4 Costs
The major results of this analysis are: (i) 2nd generation bioethanol will become competitive when including current tax schemes by about 2020 (see fig. 5); (ii) Biodiesel (BD-2) will compete with fossil diesel only close after 2025 (see fig. 6); (iii) Yet, if no taxes are considered, neither 1st nor 2nd generation bioethanol will be cheaper than fossil fuels before 2030. Close before 2030 biodiesel 1st generation could become competitive with fossil diesel without tax exemptions.
Figures 7 and 8 depict the underlying detailed cost structures. It can be seen that the largest part of the total biofuels costs are feedstock costs. In the future, the major cost reduction could be caused by capital costs. But the actual cost differences between RS and AS are rather small.

5 Environmental performance

A very sensitive issue with respect to the future relevance of biofuels is their energetic and environmental performance.
The range of the GHG emissions is very wide due to the different production technology, different feedstocks and the way of using by-products. As shown in fig. 9 and fig. 10, conventional biofuels have moderate reduction of GHG emissions. Higher GHG emission reductions could be achieved in the case of by-products being used as fuel instead of as animal feed. However, GHG emission reductions for the 2nd generation biofuels could be much higher, mostly because these processes use part of the biomass intake as fuel and therefore involve less input of fossil energy [7].

The CO₂ emissions profile of biofuels production depends very much on the type of feedstock used and the production process. With the increasing use of
biofuels in EU-15 total emission from biofuels will be in 2030 significantly higher than now, about 83 million tons CO₂-eq (see fig. 11).

Figure 11: CO₂-eq emissions from biofuels [7].

Figure 12: CO₂ savings in EU-15 due to biofuels [7].

However, using biofuels, considerable CO₂ saving in EU-15 could be noticed (see fig. 12). An increase in CO₂ saving after 2026 is due to the increasing share of biofuels 2nd generation.

In this context, it is very important to state that it has to be ensured by monitoring and certification processes that the ecological performance of biofuels 1st generation improves continuously.
6 Conclusions

The major conclusions are:

- Under current policy conditions – mainly exemption of excise taxes – the economic prospects of biofuels 1st generation in Europe are rather promising; the major problems of biofuels 1st generation are lack of available land for growing proper feedstocks and the modest ecological performance; the indigenous potential for BF-1 in EU-15 are limited at a level of about 2 to 3 times the volume of today (without endangering food supply and without imports of feedstocks for biofuels like palm oil).
- The environmental performance of the 1st generation biofuels is currently rather modest.
- Biofuels 1st generation will reach their maximal potential by about 2020. Since up to 2030 they are still cheaper than 2nd generation biofuels, they will remain in the market at least until 2030 without significant reductions.
- Large expectations are put into advanced 2nd generation biofuels production from ligno-cellulosic materials like whole plants, wood and wood residues; so the major advantage of BF-2 is that the potential will be significantly higher at levels of more than ten times of today’s BF production; (vi) Regarding the future costs of BF-2 it can be stated that in a favourable case by 2030 they will be close to the costs of BF-1; so by 2030 in Europe neither for BF-1 nor for BF-2 significantly lower costs can be expected. Yet, if prices of fossil fuels continue to increase at least slightly given current tax policies, BF-1 will become competitive already in the coming years, BF-2 about a decade later.
- 2nd generation biofuels will – in a favourable case – enter the market between 2020 and 2030. However, their full potentials will be achieved only after 2030.

References