

**Biofuel industry to double this year**

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A REPORT has found Australia's ethanol sector has moved to a more sustainable basis because of the growth in demand and the deferral of some projects.

But biodiesel capacity is still well ahead of demand, resulting in some plants suspending production.

Typically, ethanol produced from wheat or sugar is blended with petrol, while biodiesel can be made from vegetable oil or animal fats, which are substituted for hydrocarbon-based diesel or blended with that product.

The report issued at the Advanced Global Biofuels summit in Bangkok was prepared by energy consultants Mike Cochran and Graeme Bethune.

The report states that, while high oil prices provide an opportunity for biofuels to enter the transport fuel market, producers and world-be producers face major challenges.

These include the difficulties of trying to compete in the lower-value energy market with higher value food commodities.

The biofuels producers are also faced with a small number of buyers retailing a competing product, petrol or diesel.

Other issues include consumer acceptability and product quality, capital investment requirements by consumers before they can take the product and the drought risk to feedstocks as well as the dominance of some feedstock supplies by a small group of companies.

The report says that developments in the past six months have confirmed that one of the keys to success for producers is low-cost feedstock.

It notes that, for biodiesel, tallow and waste cooking oil have greater potential than canola or palm oil.

The consultants say the Australian biofuels industry is expanding rapidly and is expected to double this year to a capacity of more than 600 million litres, with the possibility of exceeding 1000 million litres in 2009.

The federal Government has instituted a policy of encouraging the production of 350 million litres of biofuels by 2010.

Mr Cochran said the demand for ethanol blends was growing and fuel ethanol production in Australia was running close to full capacity at about 120 million litres a year.

He estimated that, with the expansion of plants and new production, capacity could exceed 300 million litres by the first half of 2009.

But the situation for biodiesel was very different.

High feedstock costs and problems with plant commissioning had contributed to biodiesel production being well below capacity during the past six months, the report said.

But Dr Bethune said the biodiesel outlook was improving because the cost of feedstocks was falling.