Analysis: Increasing Trade of Low-Carbon Biofuel Feedstocks Heightens Supply Constraint Concerns

WASHINGTON, June 7, 2023 /PRNewswire/ -- Animal fats and used cooking oil are increasingly joining the likes of lithium, cobalt and copper as energy transitional materials where supply constraints are of growing concern, according to a new analysis of trade flows by S&P Global Commodity Insights Agribusiness Consulting group.

The analysis, entitled *Biofuel Feedstock Trade Flows: First Come, First Served?* says that ambitious policies in North America and Europe for the development of renewable diesel production have led to a surge in international trade of these low-carbon biofuel feedstocks—favored for their lower carbon intensity and their non-competing use with arable lands.

World biofuel use of all feedstocks increased by 100% between 2015 and 2022 while production increased by only 25%. This pattern is more acute for low-carbon feedstocks, the analysis says.

Low-carbon biofuel feedstocks accounted for 20% of global feedstock (vegetable oils and low carbon feedstocks) trade flows in 2022, up from barely 10% in 2015. In less than 5 years, the biofuels industry overtook the feed industry to become the dominant user of these materials in the United States, Canada and Europe. The United States began importing significant volumes of used cooking oil from China for the first time in December 2022. China exported 130 thousand metric tons to the United States in the first quarter of 2023, making it the top exporter to the country so far this year.

"Biofuel feedstocks have emerged as major global commodities and the race to secure ample supply is a key concern of biofuels producers," said Juan Sacoto, Executive Director – Agribusiness Consulting, S&P Global Commodity Insights. "Animal fats and used cooking oil are to them what lithium, cobalt and copper are to battery makers."

Low-carbon biofuel feedstocks are waste products, meaning that the production potential is limited with a low elasticity to growing biofuel demand. As a result, the biofuel industry has started turning to the feedstock import market to make up for the shortage of domestic supply.

Latin America and Southeast Asia, where meat and vegetable oil consumption are expected to grow at a robust pace for decades, are poised to emerge as strategic suppliers. The collection of animal fats and used cooking oil in these regions will be critical to serve North American and European countries where the production of these feedstocks has plateaued, the analysis says.

The analysis expects that efforts to bolster international trade will continue to intensify in the coming years as renewable diesel production is expected to boom by 2030. Somewhat later, the expected growth of sustainable aviation fuel—crucial to decarbonization of that sector—will bring additional pressure to feedstock procurement and reallocation.

"The current tightening of feedstock markets could be just a prelude as increased use of sustainable aviation fuel that is expected post-2030 ushers in the biofuel industry's '3rd wave,'" said Jean-Benoît Deloron, Senior Consultant – Agribusiness Consulting, S&P Global Commodity Insights.

"Airline companies are actively developing their procurement strategies, realizing that much of their long-term carbon reduction strategies hinge on ample supply of low-carbon feedstocks. The chase is on, and it is here to stay."

As the race to secure feedstocks gathers speed, energy companies in North America and Europe are securing feedstocks through integration and joint ventures with domestic agricultural companies. International vertical integration is likely to come next, the analysis says.

Elsewhere, integration is developing between the seed industry and biofuel producers with innovative partnerships based on the development of new "energy" crops that feature high oilseed yield or oil content, low carbon intensity, the ability to grow between two other crops rotation, and that are not considered food crops.

"Demand for low-carbon feedstocks has never been this high, with major implications for road transportation as well as shipping and aviation sectors," Deloron said. "The impacts—not only to agriculture and biofuel markets, but also the food, animal feed and oleochemical industries—are only beginning to be understood."

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