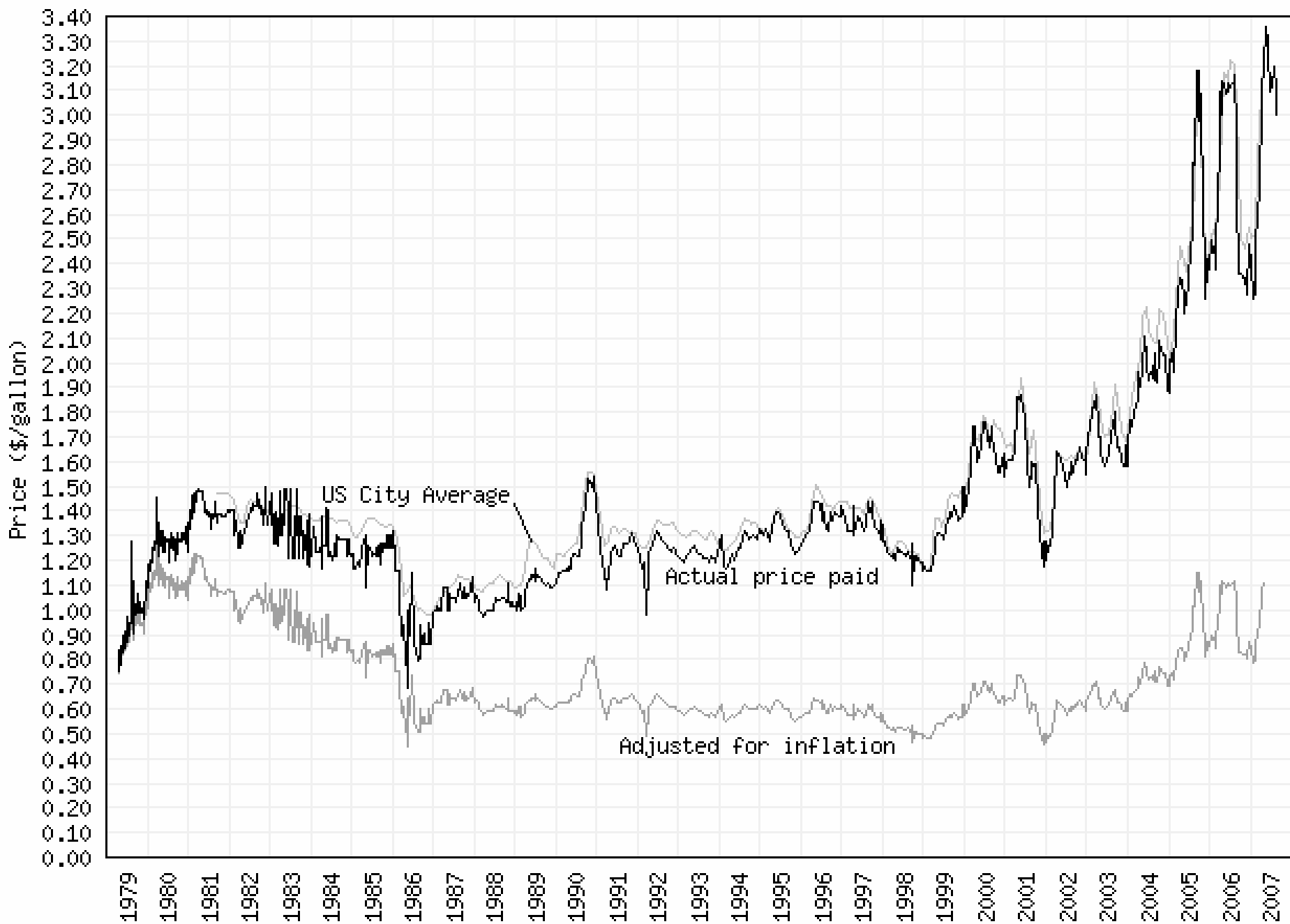


Biofuels and Its Impact on Global Markets

Dr. Cole R. Gustafson
cole.gustafson@ndsu.edu



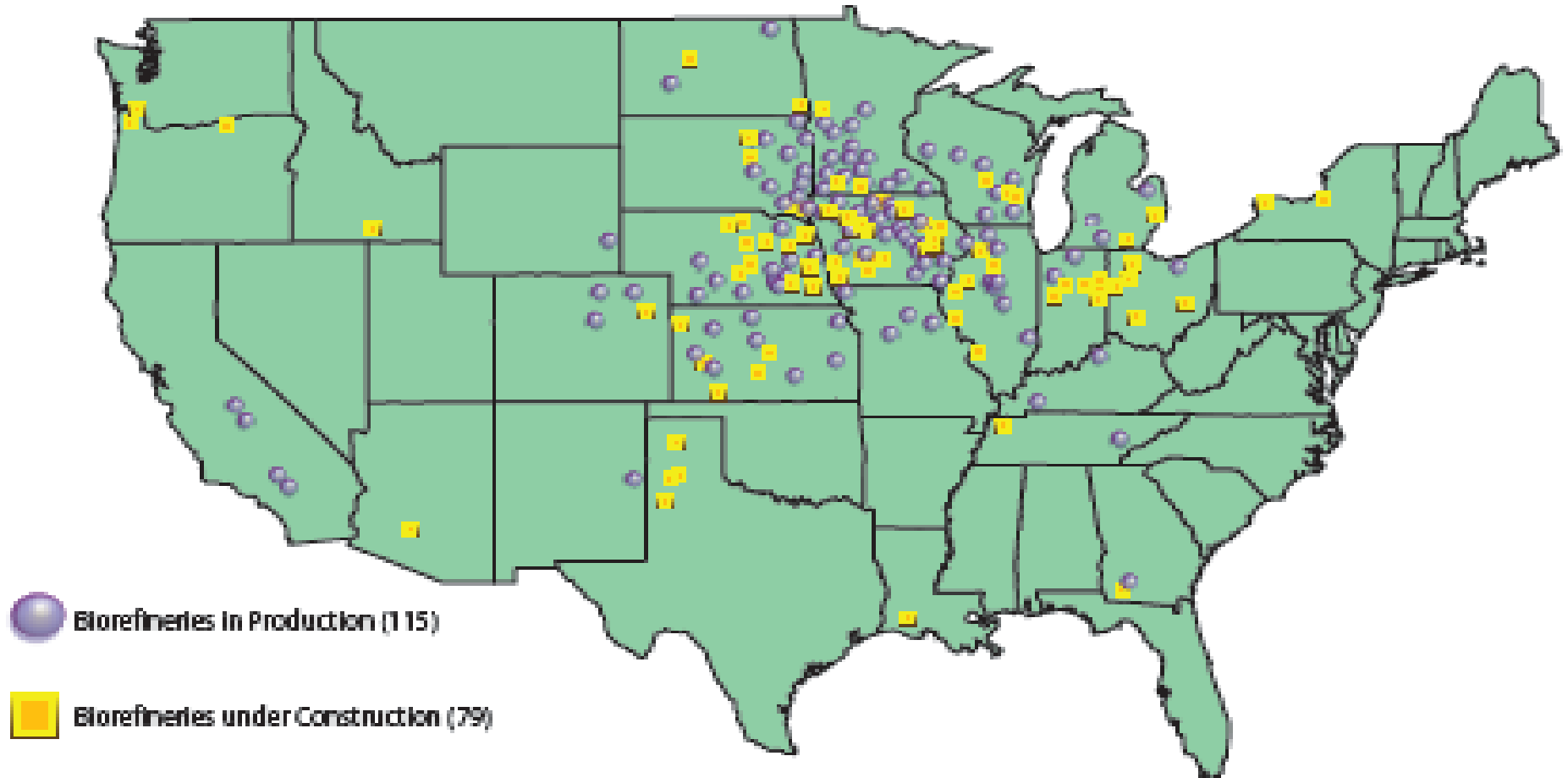
Texas Super-Unleaded Gasoline Price History



Reasons for Gasoline Price Increase

- Reduced refining capacity
- Rising prices have not curbed demand
- Boutique fuel blends , end Sept. 15th

U.S. Ethanol Biorefinery Locations

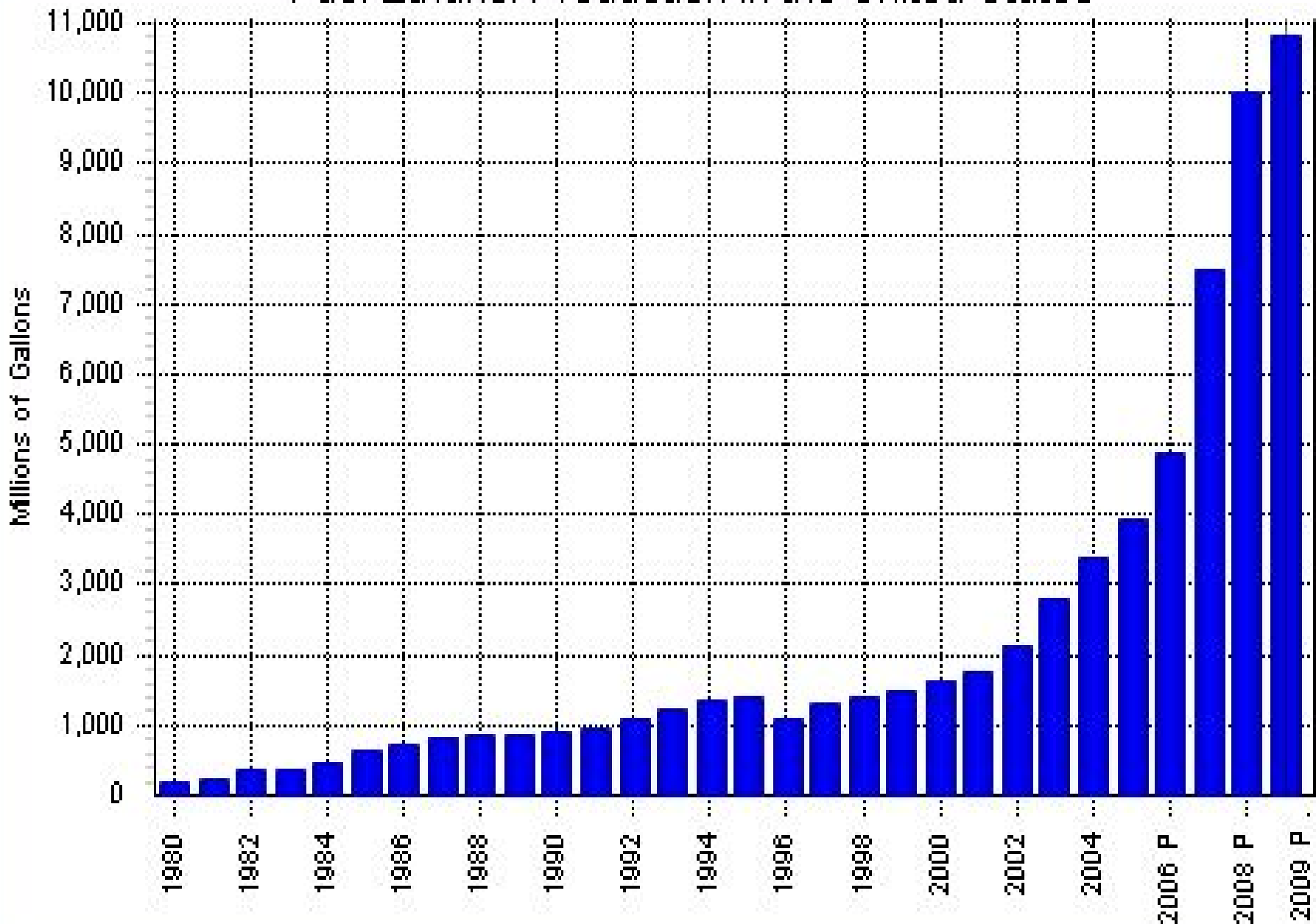


Source: Renewable Fuels Association
4.3.07

Rapid Historical Investment

- Renewable Fuel Standard motivated industry expansion (Tax credits, import tariffs, blend mandate)
- Favorable gasoline/corn price ratio provided high returns on investment
 - High investment returns enables plants to pay high prices for corn
 - \$3 billion of investment capital flowed into agriculture sector
 - External investment has rural development implications

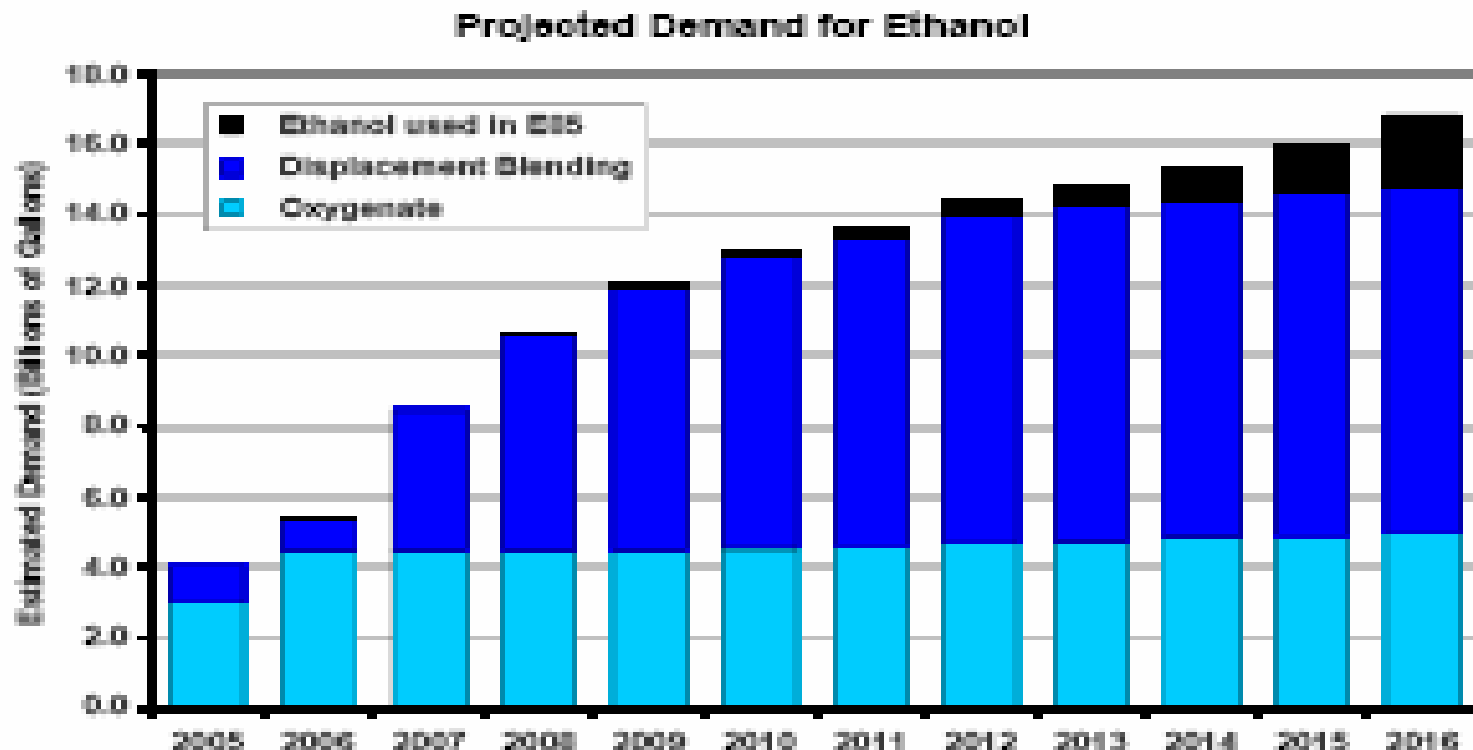
Fuel Ethanol Production in the United States



Fuel Ethanol Production in the U.S. (Renewable Fuels Association; The San Francisco Chronicle, 5/6/07)

U.S. Ethanol Industry Growth

- Support for ethanol is at an all time high as lawmakers embrace environment, economic and security benefits of renewable fuels
- BBI expects U.S. ethanol production to increase at a compound annual growth rate of 12.5% through 2016



Corn used for Ethanol – U.S.

- 2005 – 11 percent of corn production used for ethanol
- 2007 – 25 percent of corn production used for ethanol
- by 2008 – N.D. plants will use 90 percent of 2006 production

Ethanol Plant Ownership

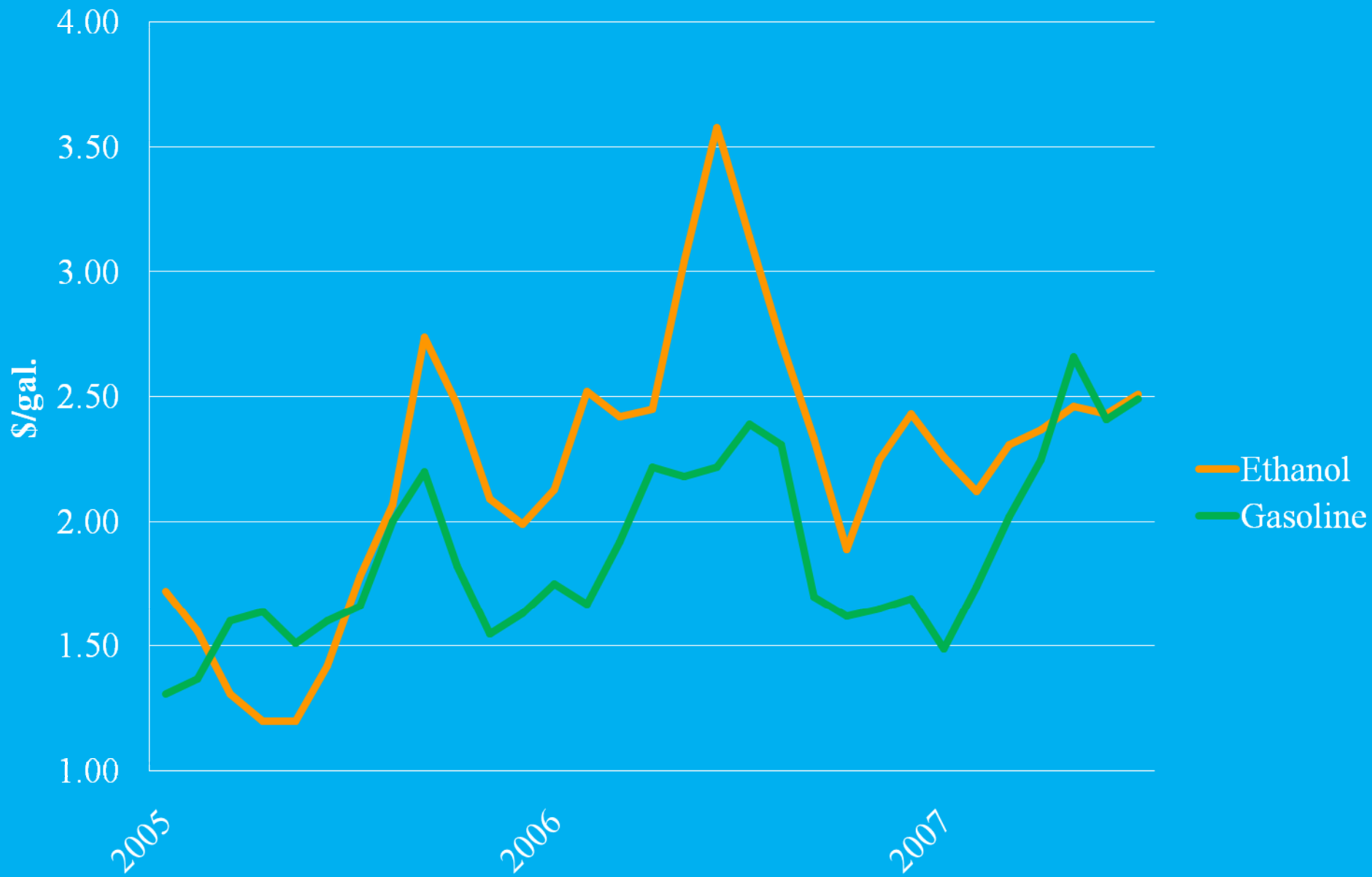
■ Current Plants

- 47 percent of plants are farmer owned
- 39 percent of production from farmer owned

■ Plants under Construction

- 12 percent of plants are farmer owned
- 11 percent of production farmer owned
- (1 percent loss of ownership => 1 less local job)

Ethanol and Unleaded Gasoline Prices 2005-07, FOB Omaha



What an Average Ethanol Plant Can Pay for Corn...

Ethanol Price	And cover variable costs	And cover variable costs <i>plus int., dep., & taxes</i>
\$1.85/gal. <i>DDG prices stable</i>	\$4.50	\$3.55
\$1.85/gal <i>DDG prices rise</i>	\$5.50	\$4.15
\$2.35/gal <i>DDG prices rise</i>	\$7.50	\$6.10

Source: Keith Collins, USDA

Recently, Investment Climate Has Cooled

- Rising price of corn and supply uncertainty
- Construction costs have risen
- Tax credits are not certain
- New concerns about environmental impact, resource demands (water), and product quality
- Investment portfolios of lenders becoming saturated
- Federal loan programs do not align with scale of new plants
- New biomass technology may render existing corn plant technologies less profitable

New Biomass Plants

Spain, Commercial Plant

Denmark, Commercial Plant

California, Rice Straw Plant

Minnesota, Straw test run

Abengoa Energy, Chesterfield, MO - \$76m - corn, wheat, milo

ALICO, LaBelle, FL - \$33m - yard, wood, energycane

BlueFire Ethanol, Irvine, CA - \$40m - green/wood waste

Broin, Sioux Falls, SD - \$80m - corn fiber

Iogen, Shelley, ID - \$80m - wheat, barley straw

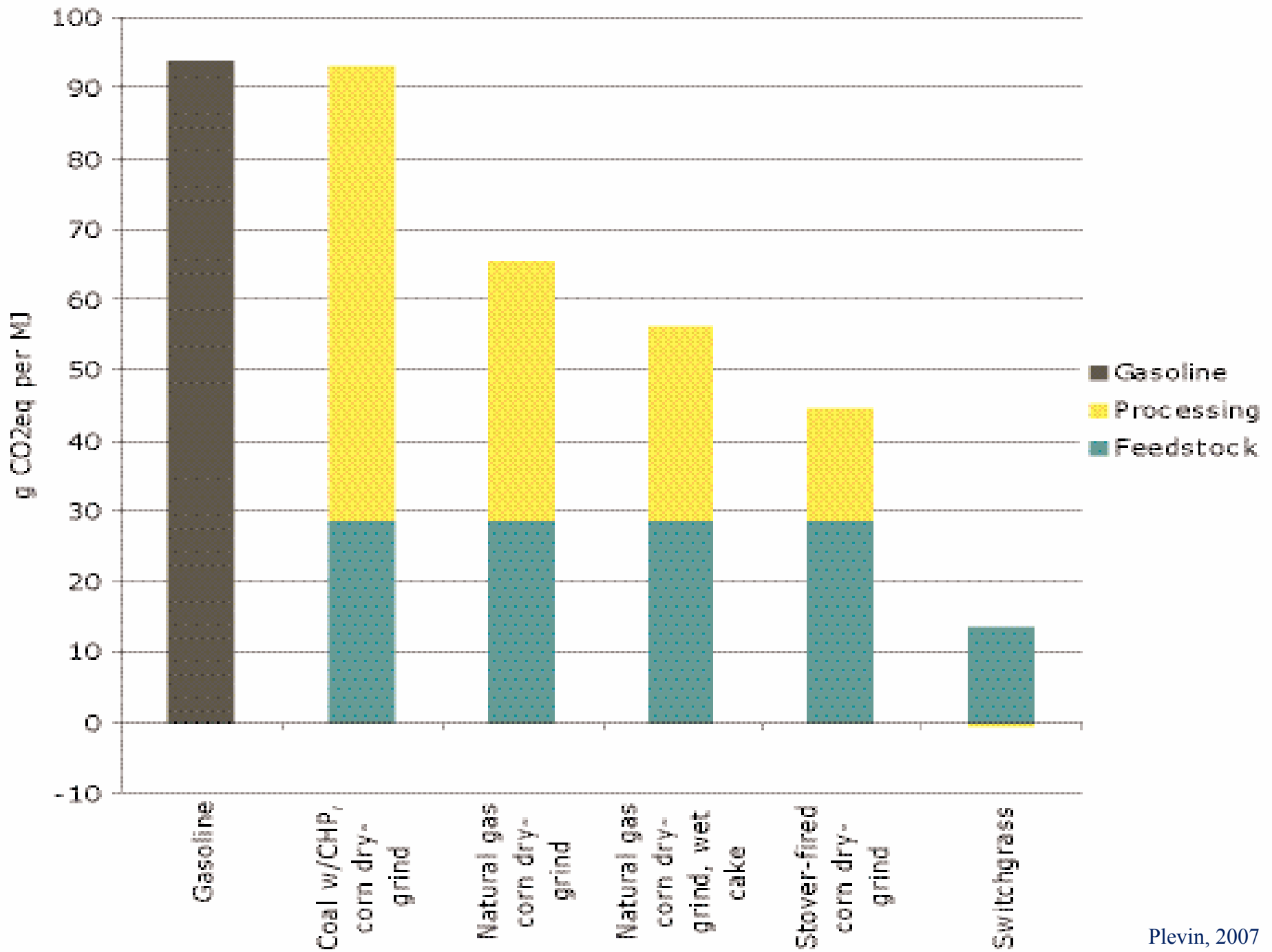
Range Fuels, Soperton, CA - \$76m - wood

New Ethanol Technology

- Fractionation
 - Endosperm, 82% of kernel, 86% starch
 - Germ, 10% of kernel, 80% oil
 - Pericarp, 8% of kernel, gasify
- Gasification of distillers grains
- Fluid Bed Technology

Ethanol's Impact on Greenhouse Gases

- Gov. Schwarzenegger (1/9/07) signed "low-carbon fuel standard" to reduce the carbon intensity of transportation fuels by at least 10 percent by 2020.



U.S. Corn Price Forecast



Soybean Production

- Corn/soybean price ratio will favor beans
- Farmers rethinking corn on corn rotations
- Farmer interest/experience with value-added crops continues to grow.



Questions?