

# EBB

## European Biodiesel Board

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### The agricultural markets fluctuations May – July 2008 show the inexistent causality relation between biodiesel production and commodities prices

EBB released in June 2008 official production statistics showing a decrease in output growth at the European level compared to the previous year. The total 2007 production estimates was higher (5.713 Million tonnes) compared to 2006 production estimates (4.890 mega tonnes). However the yearly growth decreased to 16.8% for 2006 from a 54% increase in 2005.

**At international level there is the trend of considerable increase in biodiesel production.** US production has been growing exponentially for the last 4 years, tripling in 2005, tripling again in 2006 and doubling in 2007 when it reached approximately 1.5 Million tonnes. Argentinean production expanded massively, both countries providing high supporting measures for the industry. Argentina's biodiesel production capacity was 600,000 tonnes at the start of the year and it is estimated to more than double to about 1.5 million tonnes by the end of 2008.

Against this background, **biodiesel increased production has been inappropriately correlated with both agricultural commodities prices and fuel commodity prices.** With the lack of empirical research evidence, biodiesel has been considered by media and various other interest groups as the cause for the price spikes in both markets (fuel and non-fuel).

**EBB acknowledges the international sustainability concerns,** especially those involving third world countries worsening economic situation. However, it is essential to stress that **the cause – effect relationship between biodiesel production and commodity prices does not represent the real facts.** Moreover, the latest market developments are increasingly showing that there is no relationship between the two factors.

On one side we have in 2008 an **increasing biodiesel production** at international level.

In the same time:

- The price of soybean is decreasing since May 2008
- The price of corn is decreasing since January 2008

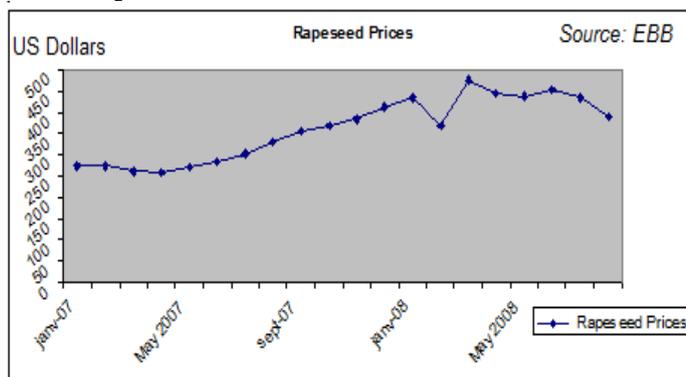


Fig. 1

Source: EBB

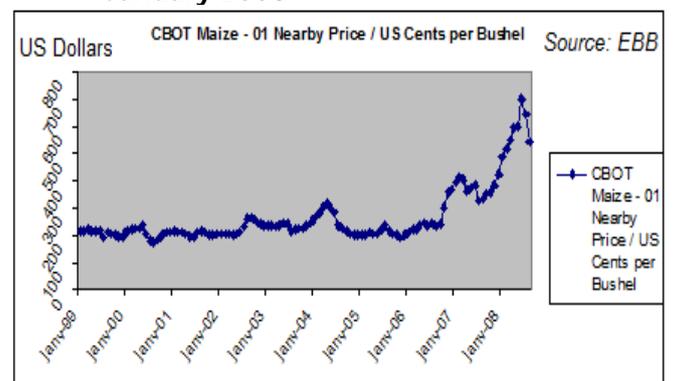


Fig. 2

Source: EBB

- The price of wheat is decreasing since May 2008

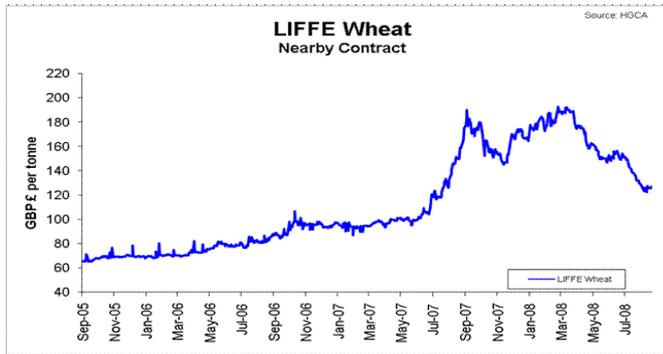


Fig. 3

Source: HGCA

- The price of Brent Crude is decreasing since May 2008

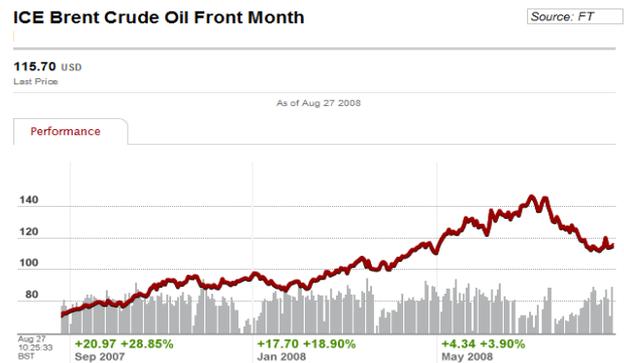


Fig. 4

Source: FT

- The price of Gasoline is decreasing since May 2008



Fig. 5

Source: FT

- The price of Ethanol is decreasing since May 2008

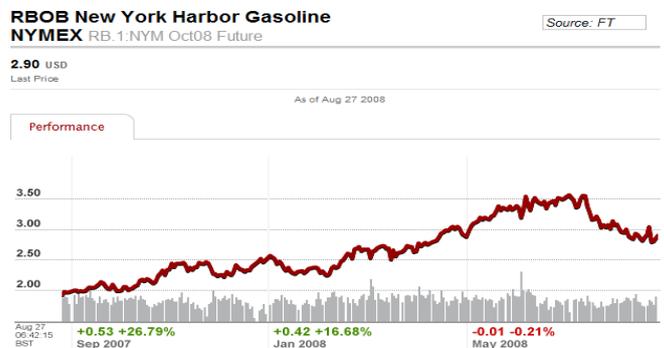


Fig. 6

Source: FT

- The price of Copper is decreasing since May 2008



Fig. 7

Source: Metal Exchange

- The price of Aluminium is decreasing since May 2008



Fig. 8

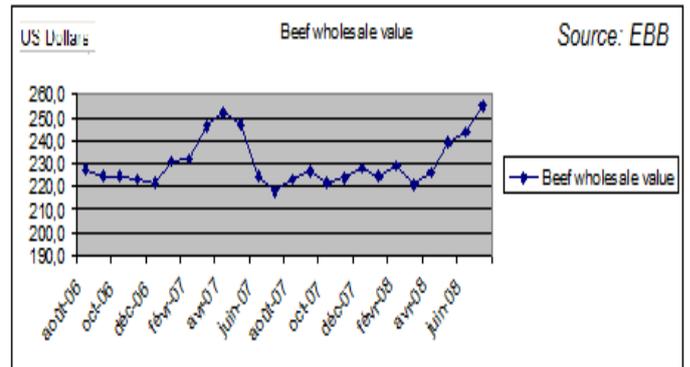
Source: Metal Exchange

The only commodities that see a continuous increase in prices are milk, meat (pork and beef) and cattle. This again contradicts the accusations of biodiesel contributing to the price increase of food commodities. The reason is that the biodiesel industry increasingly provides co-products (meals) used as feed material for animal farming. The abundance of feed, in a normal market scenario, decreases the price of meat and of milk. In reality, as we can see from the graphs, this is not happening. Consequently, it supports the thesis of no direct relation between biodiesel production and the food commodities.

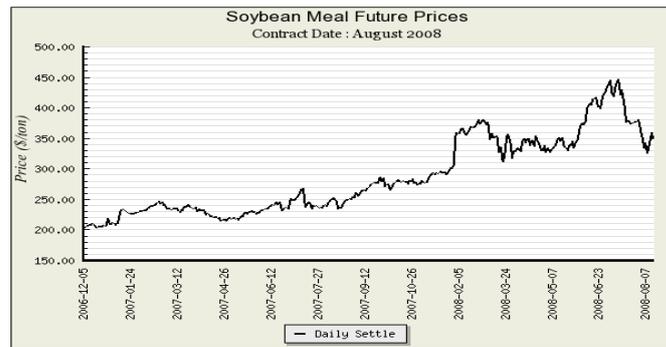
- The price of Milk increased since April 2008



- The price of Meat is increasing since March 2008



- Whilst the price of Soybean Meal is decreasing since June 2008



Note: Cash data is used to evaluate the empirical distributions.

All the commodities listed apart from meat and milk above are showing a clear price descendent trend. These facts are not considered as decisive proof for the de-coupled behaviour of biodiesel on one side and agricultural crops, fuel and metal prices, on the other side.

**EBB is drawing the attention to the complex associations that are governing these markets.** Weather patterns or anomalies, political risk, conflicts and oil crisis are just a few very important factors that influence the commodities prices.

\*\*\* The data provided in the Tables above has the following sources: EBB, HGCA, FT, World Bank, Metal Exchange, UW Madison, Austrian Biofuel Institute.

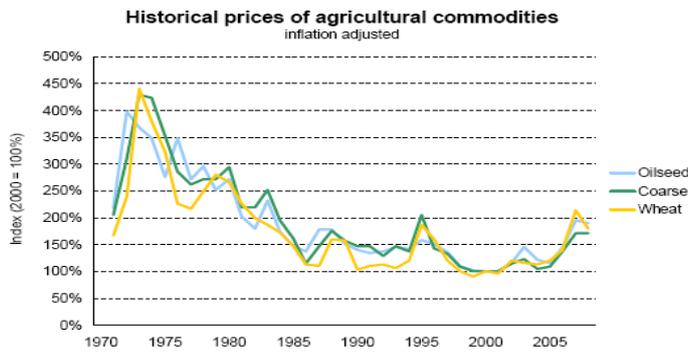


Fig. 9 Source: Austrian Biofuels Institute

- Before even considering Biofuels as a solutions for greening the transport while securitizing the supply, **price spikes in agricultural commodities occurred numerous times: in 1973, 1990 and 1995.**

- Since **significant part of the agricultural production cost is that of fertilizers (that are oil derivatives)** whenever in history the oil prices rose, the agricultural prices increased.
- **Biodiesel production, by substituting fossil fuel, is influencing downward the price of agricultural commodities.** Moreover, it is estimated that **biodiesel decreased the price of oil by 15%.<sup>1</sup>**
- Also biodiesel production and mandates clearly have an impact on agricultural commodity prices. However, **evidence in this document shows the lack of causality between biodiesel increase in production and the increase in commodities prices.**

**The European Biodiesel Board, also known as EBB, is a non-profit organisation established in January 1997. EBB represents the voice of the EU biodiesel industry. It gathers 66 companies and associations and aims to promote the use of biodiesel in the European Union. EBB member companies account for around 80% of EU biodiesel production**

<sup>1</sup> From the baseline scenario where the biofuels production was not developed, Merrill Lynch Report, March 2008.