

AN IMPACT ANALYSIS ON HOW BIODIESEL DEMAND AFFECTS THE FATS AND OILS MARKET

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ABSTRACT

With the signing of the Energy Independence and Security Act of 2007 (EISA), much attention is being given to the biofuel mandates included in the act. Biodiesel use is mandated to increase from 500 million gallons in 2009 to one billion gallons in 2012. This increased use of biodiesel may have a big impact on U.S. agriculture over the next few years. The newly added biodiesel demand could potentially affect the demand for fats and oils and the hierarchy of their prices.

The primary objective of this study is to determine how the fats and oils market is affected by the addition of the newly expanded biodiesel demand. A secondary objective of this study is to estimate some elasticities for the industrial side of the fats and oils market. A third objective, which is also an intermediate stage, is to introduce biodiesel demand, based on the assumption of very elastic demand at a break-even price that takes account of some petroleum-based diesel price and other input costs.

The results show that tax credits and the mandates will play a significant role in biodiesel's future. Without these incentives biodiesel will not be as profitable. The results help us to understand current policies and provisions, as well as a way to look at different scenarios that might affect future policies.