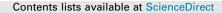
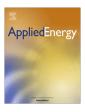
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A conceptual framework for the analysis of the effect of institutions on biofuel supply chains

J.A. Moncada^{a,b,*}, Z. Lukszo^a, M. Junginger^b, A. Faaij^c, M. Weijnen^a

^a Faculty of Technology, Policy, and Management, Delft University of Technology, Jaffalaan 5, 2628 BX Delft, The Netherlands ^b Copernicus Institute of Sustainable Development, Utrecht University, Heidelberglaan 2, 3584 CS Utrecht, The Netherlands ^c Energy and Sustainability Research Institute, University of Groningen, Nijenborg 4, 9747 AG Groningen, The Netherlands

HIGHLIGHTS

• Proposes a conceptual framework to analyze biofuel supply chains.

• The German biodiesel supply chain was formalized into an agent-based model.

• Patterns in production capacity result from investors' perceptions of the market.

• This methodology could be used to analyze different deployment strategies.

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ABSTRACT

The economic performance of biofuels supply chains depends on the interaction of technical characteristics as technological pathways and logistics, and social structures as actor behavior, their interactions and institutions. Traditional approaches focus on the technical problems only. Little attention has been paid to the institutional analysis of biofuel supply chains. This paper aims to extend the analysis of the effect of institutions on the emergence of biofuel supply chains by developing a conceptual framework that combines elements of complex adaptive systems, (neo) institutional economics and sociotechnical systems theory. These elements were formalized into an agent-based model. The proposed method is illustrated by a case study on a biodiesel supply chain in Germany. It was found that the patterns in production capacity result from investors basing their decisions on optimistic perceptions of the market development that increase with a favorable institutional framework. Conversely, patterns in biodiesel production cannot be completely explained by this mechanism. The proposed framework assisted the model conceptualization phase and allowed the incorporation of social structures into the agentbased model. This approach could be developed further to provide insights on the effect of different future deployment strategies on bioenergy systems emergence and development.

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1. Introduction

The depletion of fossil fuels, growing concerns about energy security and global climate change have led to growing worldwide interests in biofuels [1]. In fact, the substitution of fossil fuels with biofuels has been proposed by the European Union (EU) as part of a strategy to reduce greenhouse gas emissions from road transport, enhance energy supply and support development of rural communities [2].

* Corresponding author at: Faculty of Technology, Policy, and Management, Delft University of Technology, Jaffalaan 5, 2628 BX Delft, The Netherlands. *E-mail address:* j.a.moncadaescudero@tudelft.nl (J.A. Moncada). One of the fundamental barriers to the establishment and development of biofuels supply chains is related to economics. Biofuels are not cost competitive with their fossil fuel counterparts and thus they need governmental intervention. Formal institutions such as mandatory blending targets, tax exemptions, subsidies and import tariffs are some of the government interventions widely used to stimulate production and increase consumption of biofuels around the world [1].

The economic performance of biofuels supply chains depends on the interaction of technical characteristics (technological pathways and logistics) and social structures (institutions and actors behavior). Technological learning mechanisms such as learningby-searching and economies of scale depend on investment in research and development as well as on production capacity by

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blc

 C^+

 $C \\ C^e_{t-1} \\ C_{t-1}$

 C_t^e

 C_{b_i}

Cap

L

lc

 MC_{b_i}

MSE

n

 P_b

 P_d

 P_{g}

 P_{rm}

 $P_{r_i}^{bid}$

 $P_{bp_k}^{bid}$

Pr

Nomenclature

by the farmer

ducer j, [euro/l]

and a distributor center [km]

and the real ones in Germany

mean squared error

diesel price, [euro/l]

ducer *j*, [euro/t]

glycerol price, [euro/t]

rape meal price, [euro/t]

rapeseed price, [euro/t]

number of predictions

owned by the biofuel producer *j*, [euro/l]

wholesale biodiesel prices, [euro/l]

[Ml/year]

parameter used in Eq. (11), $0 \le a \le 1$

base land conversion factor. It defines the initial fraction

of arable land to be used to produce rapeseed allocated

value of the currency evaluated in the point $P^+ = P + dP$

fixed cost of the refinery operated by the biofuel pro-

capacity of the refinery owned by the biofuel producer *j*,

distance calculated in the simulation between either a

farm and a biodiesel plant or between a biodiesel plant

Conversion factor to account for the different scale be-

tween the spatial dimensions used in the simulation

marginal cost of producing biodiesel in the refinery

value of the currency evaluated in the point P

actual value of the variable *C* from the time t - 1

updated estimate of the variable *C* for the time *t*

estimate for the variable *C* in the time t - 1

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t_b

biodiesel quota, [Ml/year] q_b

- volume of biodiesel to be produced, [1] q_{b_i} q_r
 - mass of rapeseed to be processed, [ton]
- rlc rate land conversion factor. It defines the rate of expansion of the fraction of arable land to be used for rapeseed production allocated by the farmer
- **S**⁺ partial derivative of the currency *C* with respect to the parameter P
- TC_{b_i} total production cost of biodiesel, [euro/l]
- unit transportation cost of the good *b* or *r*, [euro/l,tc euro/t]
 - biodiesel tax, [euro/liter]
- transportation cost of the product *b* or *r*, [euro/(1 km,), tc_p euro/(t km)]
- Y_{b-g_j} yield glycerol of the biofuel producer *j*, [kg glycerol/kg biodiesell
- yield of biodiesel from oil rapeseed of the biofuel Y_{o-b} producer *j*, [kg biodiesel/kg oil rapeseed]
- yield of oil from rapeseed of the biofuel producer *j*, [kg oil rapeseed/kg rapeseed]
- yield of rapeseed meal from rapeseed of the biofuel producer j, [kg rapeseed meal/kg rapeseed]

biodiesel producer price bid into the market by the dish tributor k, [euro/l] g expected biodiesel price of the distributor k, [euro/l] $i \in I$

- $P_{b_k}^{\exp}$ $P_{bp_j}^{\exp}$ expected biodiesel producer price of the biofuel producer j, [euro/1]
- $P_{r_i}^{exp}$ expected rapeseed price, [euro/t]
- PM_i profit margin for the biofuel producer *j*
- PM_ν profit margin for the distributor *k*
- pmd perception of the biodiesel market development. This parameter is used to simulate the perceptions of investors in the German biodiesel market. This parameter is translated into the number of new plants to be built and it is a function of the biodiesel tax and quota

financial actors (public or private). In turn, the decision to invest depends on the institutional framework. A stable and supportive institutional framework might reduce actors' risk perceptions and thus increase investment.

The scientific literature has been mainly focused on the technology [3–5], logistic [6,7], and availability of feedstocks [8,9] or some combination of them [10,11]. In general, these studies leave aside the institutional framework and make normative assumptions on actors' behavior (homo economicus), or where the institutional framework is included, the focus is limited to formal institutions [12.13].

The influence of institutions on the economic performance of biofuel supply chains is not only limited to the use of policy instruments. Institutions such as governance structures have proven to be an important barrier in the deployment of biofuels supply chains [14–16]. The selection of governance structure is crucial to competing on transaction costs. Similarly, the selection of technology is also pivotal to competing on production costs [17].

Indeed, the economic performance of a biofuel supply chain is the result of the interaction among technology, policy and management.

The interaction among institutions, actors' behavior and technical elements make the supply chain in general, and the biofuel supply chain in particular a complex adaptive system.¹ This inherent complexity calls for a multi-disciplinary approach and comprehensive conceptual analysis framework. To the best knowledge of the authors, a conceptual framework that encompasses institutional, technical and social elements in the analysis of the emergence of biofuel supply chains is still missing.

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Y_{r-o_i} Y_{r-rm} Ŷi vector of *n* predictions Yi vector of observed values Greek symbols biodiesel density, [kg/l] ho_b miles per gallon diesel equivalent. Abbreviations biodiesel glycerol set of all farmers $j \in J$ set of all biofuel producers set of all distributors $k \in K$ rapeseed r rm rapeseed meal rapeseed oil ro

rapeseed price bid in the market for the biofuel pro-

¹ Complex adaptive systems (CAS) refer to those systems whose overall behavior is intractable even when their components are very simple. The system behavior emerges as a result of the interactions between and adaptation of the individual components [18]. Examples of such systems are: ecologies, immune systems, the brain, and economies

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