



Seeing Money in Biodiesel

The Government has stepped in to stop the current craze to produce biodiesel, brought on by the recent escalating petroleum prices.

■ By Heikal Abdul Mutadir

THE overwhelming interest to produce palm oil-based biodiesel is leaving the Government with no choice but to limit licensing for such ventures.

On the surface, it may appear the authorities are attempting to interfere with the free market by disallowing companies to venture into industries of their choice. But the reality is, the Government is trying to strike a delicate balance in maintaining palm oil supply for biodiesel producers and the local food sector.

This is because palm oil, which is the raw material for biodiesel, is also used extensively as cooking oil and for various processed food items like margarine, shortening and vegetable ghee.

Palm oil is also used widely in non-edible items like soaps and detergents. Malaysia's fast-expanding oleochemical industry has also further diversified into production of fatty acids, glycerols, methyl esters and fatty alcohols, which form the basis of numerous products for home and industrial use, using palm oil.

Ministry of Plantation Industries and Commodities (MPIC) Secretary-General Datuk Dr Michael Dosim Lunjew tells *Malaysian Business* the response to the Government's call for companies to set up biodiesel plants was overwhelming and totally

unexpected. Thus the freeze on the licence, which was first made in June this year.

'We never expected the response to be so great,' says Dosim. 'We had 97 companies applying for the licences!'

However, he says, the freeze is not to stifle the biodiesel industry as the Government wants to encourage biodiesel production. That was why it had earlier stipulated that six million tonnes, or 40% of total palm oil output, be allocated for the biodiesel industry.

Malaysia produces 15 million tonnes of crude palm oil (CPO) a year. It is estimated that if the Ministry had approved all 97 biodiesel licence applications, the industry would need 10 million tonnes.

Interestingly, at the time of the licensing freeze, palm oil use by existing biodiesel plants were already topping 4.6 million tonnes annually. As at Sept 15 this year, the Ministry of International Trade and Industry had approved a total of 61 biodiesel manufacturing licences.

'So you can see that if we had approved all the applications to develop biodiesel, the Government would have drained some 10 million tonnes of CPO from the market,' says Dosim. 'It's a matter of fair distribution for the food and non-food sectors.'

With the unpredictability of petroleum prices and increasing demand for alternative sources of fuel, biodiesel is gaining attention

from major world economies, including Europe, the United States, India and Japan. To ensure the supply balance is maintained between the food and non-food sectors, the MPIC is conducting a study on CPO allocation. The findings will be presented to the Government probably by early next year.

Dosim says palm oil is used globally. 'We support 50% of the world's palm oil consumption,' he says, adding that Indonesia consumes most of its palm oil output. As for markets, China, Pakistan, India, the US and South Korea are Malaysia's key consumers, generating export revenue of RM28.6 billion for the country.

MPIC is also planning to vet applicants to ensure that only those capable of producing quality biodiesel will be issued the licence.

But despite the great interest in palm oil-based biodiesel, the market for it is not all assured. The biggest threat to the biodiesel manufacturers and plantation companies would be petroleum prices. Analysts say should they fall below US\$50 per barrel, renewable energy like biodiesel would be less attractive and the current strong performance of plantation stocks may fizzle out.

'As long as petroleum prices stay above US\$50 a barrel, biodiesel will still be competitive,' says Dosim. **mb**