CURRENT AND FUTURE ISSUES AND CHALLENGES FOR THE OLEOCHEMICAL INDUSTRY

• Presentation to PIPOC Oleochemicals Conference 2011
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Agenda

Capacity
Capacity ownership
Market Growth
Major Issues –
• Biofuels,
• Taxes/Duties etc, Economy,
• Sustainability

What’s next?
Global Fatty Acid Capacity by Region

2010/11 capacity - ca 9.0 million tons

- SE Asia: 40
- China: 22
- India: 7
- ROA: 3
- Europe: 13
- N America: 11
- ROW: 4
Global Fatty Alcohol Capacity by Region

Total 2010/11 – ca 3.7 million tons
Historic and forecast fatty acid consumption volumes, by region (2000-2020)
Historic and forecast fatty acid production volumes, by region (2005-2020)
Historic and forecast fatty alcohol consumption volumes, by region (2000-2020)
Historic and forecast fatty alcohol production volumes, by region (2005-2020)
Capacity Ownership

% Capacity owned by raw material producers

Fatty acids – 60

Fatty alcohols - 25 (50)
Problems affecting Oleochemicals

The economy

Biofuels - Oil Price effect

Biofuels - Disappearing feedstock

Biofuels - Glycerine

Export/Import taxes/Anti-dumping tax

Sustainability
The Economy

Bankers – one way risks only: they get the bonuses, tax payers/investors pay the penalty

Politicians – no business experience. Yet we elect them to run our countries

Economists – only have hindsight

Auditors/Ratings Agencies – never spot the big problems

Is it any wonder we are in a mess?
Biodiesel effects

Oils and fats prices

Glycerine price/availability

Raw material availability
Biodiesel Growth 2000-2020

• By 2020 conventional biodiesel will have grown to 40 - 50 Mt
• Glycerine generation will grown to ca 6 Mt glycerine, (2011 ca 3 million)
• Other types of biodiesel will consume additional fats and oils, e.g. Neste process
• Total oils and fats consumption for fuel will be above 50 Mt
Biodiesel production volumes (1995-2010)
Until 2006, year-on-year changes in CPO prices used to be fairly easily explained in terms of MPOB stock changes.
The relationship has broken down since mid-2007.
Brent nominal crude prices plotted against ethylene, US$ per tonne
Biodiesel use in Germany and the US, reacts quickly to swings in the biodiesel premium over diesel. This links biodiesel to diesel prices.
Edible oil prices vs crude oil 2006 - 2011

EU Prices, US$ per tonne

Brent Crude
Palm Oil
Soy Oil
Rapeseed Oil
PKO
Coconut Oil
Other oils vs crude oil

- Brent Crude
- Olein
- Tallow
- Stearin
- PFAD

US$ per tonne

Jan-06 to Jan-11

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Biodiesel Effect on Oils and Fats Availability

• **US position** – tallow rated better than vegetable oils on greenhouse gas emissions.

• **European position** – tallow gets a double tax benefit for biofuels in some countries

• **Neste type technology** – can use any oil as feedstock (TO, PFAD, PS, Tallow, Soya, Rape)

**Net effect** -
In addition to the vast quantities of fats and oils taken from traditional uses, the price advantage of the cheaper feedstocks favoured by oleochemicals will be prejudiced and some may just disappear
In the EU biodiesel market, used cooking oil methyl ester is now by far the most expensive, with tallow ME just ahead of rapeseed ME.
Glycerine Price - Biodiesel effect

• Long term low prices due to massive volumes from biodiesel
• New uses only stop this being an absolute disaster
• Too high prices turn off new uses
• Rapid price cycling as non-traditional uses come on and off due to price fluctuation
Historic glycerine production volumes, by sector, 1980-2010
The biodiesel production growth has kept crude glycerine prices in check, when other commodity prices have been strong.
Refined glycerine has settled at a premium of over $400 above crude glycerine prices, and have now fallen well below CPO prices.
Indonesian Export taxes

• Keeps a cost advantage for domestic industry
• Disadvantages the rest of the world
• Will there be retaliation? (Import duties, anti-dumping taxes, quotas)
• Unnecessary capacity may be built in Indonesia causing spare capacity elsewhere (on a global basis)
The new Indonesian export tax system has reduced the export taxes on RBD palm stearin by approximately half.
At the same time, the Indonesian government has introduced relatively high export taxes on PFAD, after a long period with no such taxes.
Anti – Dumping Duties on Alcohols

• Formal complaint by two European producers
• EU puts variable anti-dumping tariffs on Malaysian, Indonesian and Indian producers
• A number of the affected producers claim not to have shipped alcohol to the EU in the period in question
• One complainant has now withdrawn

Users are upset, producers are upset
Sustainability Issues

• Land use, Raw materials, Pipeline, Storage, Traceability, etc.

• But does the ultimate consumer really want it?

NO, the ultimate consumer wants no more deforestation and safe raw materials, doesn’t care about the rest and certainly doesn’t want to pay for it

• For oleochemicals the danger is being hijacked by the edible/biofuel industry problems
What’s next?

• Geographic expansion? - Indonesia, China, India, South America
• Contraction? – US, Europe
• Downstream activities? - surfactants, consumer products.
• Green chemistry - new ways of making chemicals from natural sources.
An explosion of new names, along with some familiar players…
Thank you for your kind attention

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