

# Palmed off

The US has rejected palm oil as unacceptable for biofuel production. But Southeast Asia countries – the major producers – are furious and ready to fight back. Regina Escobar investigates



**The door to the US for Asian PME has been closed before and this will seal it**



The US Environmental Protection Agency sent shockwaves through palm oil and biodiesel producers in Southeast Asia by issuing on January 27 a notice disqualifying palm oil for use as a feedstock to produce biodiesel and renewable diesel, saying that it does not meet the 20% reduction threshold in lifecycle greenhouse gas emissions.

The EPA said that its analysis found that biodiesel and renewable diesel produced from palm oil had estimated lifecycle greenhouse gas emissions reductions of 17% and 11%, respectively, compared to the baseline petroleum diesel fuel they replace. The EPA investigations are in line with the Clean Air Act, which stipulates that “renewable fuel” needs to have a lifecycle GHG reduction of at least 20%.

In assessing whether a fuel meets the threshold, the EPA says it takes into account the aggregate quantity of greenhouse gas emissions, including direct emissions and significant indirect quantity of GHG emissions such as from land use changes, and it includes all stages of fuel and feedstock production and distribution. Considering that at least 85% of palm oil produced in Malaysia and Indonesia is exported, their output is mostly targeted by the ruling, and palm oil industry organizations in Indonesia and Malaysia have come back with strong reactions.

#### QUESTIONING ASSUMPTIONS

The most important disputed point is about the EPA’s emissions numbers, which largely rest on two assumptions about the expansion of palm oil production which the US uses to determine if palm oil qualifies as a renewable fuel or not.

The first assumption is that new acres with palm trees for palm oil production would destroy peat swamps and that palm oil mills would treat much of their effluent in open ponds.

Researchers at the EPA compared old and current satellite images to determine that new plantations were cropping up in Indonesia’s Kalimantan region and on the Malaysian mainland.

The EPA determined that recent expansion occurred disproportionately on tropical peat swamps, areas that suck GHGs from the atmosphere when undisturbed but emit a flood of carbon dioxide when still-decomposing material gets bulldozed. Nearly all of the world’s undisturbed peat swamps exist in Indonesia and Malaysia.

When the peat swamps are developed for palm oil production, crews rip out vegetation, dig drainage canals more than a meter deep and compact the remaining soil to increase stability for palm trees. The process lowers the water table and accelerates decomposition.

“As a result, the peat swamp ecosystem switches from a net carbon sink to a large source of carbon emissions,” the EPA’s analysis said.

But the American Palm Oil Council, the Indonesian Palm Oil Association, and Wilmar Oleo North America said they would contest its decision.

“We believe this conclusion is based on faulty data and erroneous assumptions,” Salleh Kassim, executive director of APOC, said in a letter to the EPA soon after the EPA report.

And Texas-headquartered Wilmar, which calls itself the world’s largest manufacturer of palm biodiesel, said in a comment to the EPA on February 13 that it was “confident that, if responsibly and sustainably produced, palm biodiesel can easily satisfy the RFS2 eligibility requirements, help the US reduce its dependence on petroleum-based fuels, and improve the GHG profile of the US fuel supply.”

Gapki, the Indonesian Palm Oil Association, also opposed the decision of the EPA. One assumption that was considered wrong was that 88% of the growth of the Indonesian palm oil industry would be in Sumatra and 12% in Kalimantan.

Gapki's Executive Director Fadil Hasan said on January 31: "This is not true, there is no more available land in Kalimantan for expansion to begin with."

He added: "We feel that the calculation of palm oil's GHG is wrong on account of the assumptions set out in the calculation. We are going to argue that this has to be changed."

Hasan also said that Gapki was still optimistic that the EPA filing was not a finalized ruling, but a mere notification.

#### IS IT ABOUT TRADE?

For most of the industry participants contacted by Platts, the EPA ruling is seen essentially as a trade barrier.

A representative from an Indonesian palm refiner Musim Mas, which is one of the biggest players in the Asian palm oil industry, felt that what the EPA sets are "all trade barriers," and opposition to the ruling would be in vain.

"The biodiesel essentially has three grades – SME [soy methyl ester], RME [rapeseed methyl ester] and PME [palm methyl ester] and each type is going to have a monopoly of their own market," the representative said on February 16.

"There's not a single formula acceptable to everybody and each agency would set out a calculation route that would be favorable to the product their country produces."

The EPA's European counterpart was also reported to have a similar agenda and to have set out parameters for biodiesel that would make rapeseed-derived biodiesel as the allowed biofuel for diesel blending.

The Musim Mas source gave an example of the European restrictions on the iodine value, which is regarded as an indication of the degree of saturation, but has no implication on application. "This restriction was simply to block product coming from the US," the source said.

"The feedback would have no bearing unless an autonomous body like the World Trade Organization steps in," the Musim Mas representative added.

"As a molecule, all natural vegetable oils can make biodiesel but what Europe has done is to set an angle that they can use to block out other products."

Soy is the main source of biodiesel in the US, while rapeseed is the main source of biodiesel in Europe. Both of these have a lower yield of methyl ester compared to palm and thus have no competitive advantage to palm methyl ester, sources contend.

#### AN OLDER BATTLE?

In the opinion of some industry sources, the current conflict is not the beginning of a new battle, but actually the culmination of an older existing battle.

"The door to the US for Asian PME has been closed before and this will seal it," a trading manager from Vance Bioenergy, a Singapore-based marketer for biodiesel said on February 16.

This is also seen from the fact that Singapore, Asia's key regional hub for oil trading, is no longer used as a transshipment point for biodiesel because of the anti-circumvention probe by the European Commission since September 2010.

PME used to be stored in Singapore during the northern winter period as there is little incentive to buy the product during the winter in the region.

Demand for PME, which was normally sold into Europe as a blendstock, typically declined towards the end of third quarter, when the markets in Europe make the switch to winter grade biodiesel. So PME is kept in storage during that period.

Singapore was used to consolidate shipments of PME from Malaysia and Indonesia, but traders are now likely to send shipments directly from producing origins.

Singapore's Ministry of Trade and Industry circulated a note in August 2010 to Singapore companies exporting biodiesel to the European Union to assist in the investigation.

In the note, MTI said if a company has exported the product to the EU between April 1, 2009 and June 30, 2010, there may be an impact if the investigation determined that the company's exports were in fact transshipped products from the US to the EU via Singapore.

"Customs in the EU has already begun requiring all shipments of palm methyl ester from Singapore to post a bond equivalent to the countervailing duty, so this effectively will stop all Singapore shipments of biodiesel. We'll also now have no more transshipment of biodiesel because of this EU rule," said the source at the time.

The European Commission has launched an investigation into imports of US-produced biodiesel in to the Europe Union, as it seeks to determine if anti-dumping measures that were imposed on the US in March 2009 are being circumvented.

The investigation follows a request by the European Biodiesel Board, which claims that the US-produced biodiesel is reaching Europe without paying anti-dumping duties, either through triangular trading using other countries, mainly Canada and Singapore, to send biodiesel to Europe, or through the import of B19 – a mixture of 19% biodiesel and 81% gasoil – which is not covered by the EU duties.

The ruling by the EPA is adding pressure to an already troubled biodiesel environment in Southeast Asia.

In the case of Malaysia, for example, the country has 92 entities licensed to produce PME, but only 10 have actually built downstream biodiesel plants, and only four of these are in operation as of early 2012.

In Singapore, two of the country's biodiesel producers wound up their biodiesel business in 2009, and a third one was sold to a surfactant producer in 2010 and was retrofitted to produce surfactants.

Neste Oil's biodiesel plant is the lone standing one in the island nation, although it is considered the largest biodiesel plant in the world with a capacity of 800,000 mt/year, getting most of its feed from palm oil produced in the region. Output from the plant is seen as well-secured by its European parent.

The EPA in the meantime was collecting public feedback on its ruling regarding biodiesel and renewable diesel produced from palm oil but had set a deadline of the end of March.

[regina\\_escobar@platts.com](mailto:regina_escobar@platts.com)