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ICIS Chemical Business

March 19, 2007

China's biodiesel need is predicted to go sky-high

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Chinese demand for **biodiesel** is expected to grow at 122% annually from 2005-2010, according to analysts, while global demand is expected to jump to 619m tonnes in 2010 from 36m tonnes in 2006. As a result, an increasing number of companies in China are investing in **biodiesel** plants, lured by the promise of government subsidies and growth prospects. Earlier this month, China Agri Industries, which launched an initial public offering on the Hong Kong Stock Exchange, said that it plans to use HK\$2.8bn (\$358m, ?272m) of the proceeds to increase fuel ethanol capacity.

China National Petroleum Corp recently signed a memorandum of understanding with the Shandong provincial government to build two biofuel plants. And China National Offshore Oil Corp's (CNOOC) plan to join two partners to invest \$5.5bn in an Indonesian **biodiesel** project is in the public eye. But China's **biodiesel** industry will become more regulated as demand rises, according to Tai-ming Ou, chairman and CEO of China Clean Energy. "We're expecting the government to implement technical standards for the **biodiesel** industry by the first half of this year. These measures would likely spark restructuring in the industry, forcing smaller, sub-standard players to exit and, eventually, the **bio-diesel** fever will come to an end," he said. In China, **biodiesel** is 5% to 10%/tonne cheaper than regular diesels. China's National Development and Reform Commission (NDRC) has put in place ethanol subsidies and tax breaks, but getting consumers used to the product might take some time, said Ou. "Because **biodiesel** is such a new product, the industry and government may have to spend as much as three years to educate consumers about its benefits in a bid to gain higher acceptance," Ou said. While plants elsewhere tend to rely largely on vegetable oil, it is not economical for China to import it to make **biodiesel** since it already imports significant amounts for human consumption. So companies such as CNOOC are joining with partners that have ready access to feedstock. CNOOC recently signed an agreement with Hong Kong Energy and Indonesia's Sinar Mas Agro Resources and Technology to develop palm oil-based **biodiesel**, as well as sugar cane and cassava-based bioethanol. The project will be developed in three phases over eight years. Chinese companies use different types of feedstock, such as biomass and cellulose derived from plants. China Clean Energy, for instance, uses cottonseed acid oil and waste oil from restaurants to first make specialty chemicals such as dimer acid. Then it adds methanol and other catalysts to the byproducts to make **biodiesel**. But China has not developed a competitive advantage in ethanol production in the way that Brazil has. A recent McKinsey study found that Brazil's cost advantage stems "almost entirely from the use of sugarcane rather than corn or other plants as feedstock." Sugarcane produces 6,000 litres of ethanol/ha (2,430 acre) compared with only 3,500 litres from corn. According to the study, emerging technologies will make it possible to produce ethanol cheaper using cellulose from other feedstocks. Vegetable oil: not for China

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LOAD-DATE: March 26, 2007**LANGUAGE:** ENGLISH**PUBLICATION-TYPE:** Magazine