

Malaysia set to require use of biofuel in place of diesel

By John Burton in Singapore

Malaysia may become the first Asian country to require the replacement of diesel fuel with biofuel for vehicles and machinery, in an effort to cut costly fuel subsidies and boost the local palm oil industry.

Malaysia's ministry of plantation industries and commodities wants to include the mandatory sale of biodiesel in a proposed biofuel bill expected to be submitted for cabinet approval this month, a ministry official told the Financial Times.

Biodiesel, a mixture of 5 per cent palm oil and 95 per cent diesel fuel, would be sold from 2007 if the law is approved. Malaysia is the world's leading producer of palm oil.

The move is in response to increased government spending on fuel subsidies, including diesel. Higher oil prices are expected to raise spending on fuel subsidies by 34 per cent to M\$16bn (\$4.3bn, €3.5bn, £2.4bn) this year.

Officials estimate the use of biodiesel could reduce Malaysia's demand for diesel by more than 10 per cent.

Malaysia is planning to build three plants to produce 180,000 tonnes of biodiesel for export within the next year. An estimated 500,000 tonnes of palm oil out of Malaysia's total annual production of 14m tonnes would be used to produce biodiesel.

Since the 1980s, the Malaysian Palm Oil Board (MPOB) and Petronas, the state

energy company, have been developing technology to convert crude palm oil into a diesel substitute.

Officials say biodiesel can be used without the modification of diesel engines, while producing cleaner exhaust emissions mandated under the United Nations Kyoto Protocol.

Malaysia's biodiesel plants will be operated in a joint venture between the Malaysian Palm Oil Board and several local palm oil plantation companies.

Global demand for biofuels was 2.5m tonnes last year and is growing 25 per cent a year, with Malaysia aiming to gain a 10 per cent market share. "Considering this potential, the government is going to produce biofuel in a big way... particularly for Europe," said Abdullah Badawi, the prime minister, when he presented a policy on biofuel development in August.

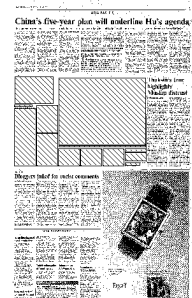
EU countries are the world's biggest producers of biofuel, most of it made with rapeseed oil. But palm oil is seen as a cheaper alternative for biofuel. The EU wants member states to use vehicle fuel with 2 per cent biofuel by this year and 5.75 per cent by 2010.

Although escalating crude oil prices make biodiesel a favoured alternative to diesel, analysts warn that rising prices for crude palm oil due to increased global demand will squeeze margins on biofuel production.

JP Morgan estimates the price of palm oil will

increase to M\$1,610 a tonne by 2007, although that is still less than diesel, which is now priced at about M\$2,000 a tonne.

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A worker stacks palm oil fruit in Kuala Lumpur. Malaysia hopes to use biofuel in a move to cut subsidies and boost local industry

Reuters

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