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US biodiesel makers cut output to estimated 15% of capacity

More than a month after the European Union slapped US biodiesel producers with duties to curb imports, some US producers are shutting down while others are enjoying a spike in demand as capacity utilization sinks to about 15%, according to marketwatchers.

Adding to market uncertainty are new federal Renewable Fuel Standard targets, known as RFS-2, expected to be unveiled Tuesday by the Environmental Protection Agency. The National Biodiesel Board warned its members last week that RFS-2 may rule out biodiesel made from soybean oil, the main feedstock of most US biodiesel makers.

"EPA personnel through stakeholder meetings have indicated that the forthcoming rule as currently drafted disqualifies biomass-based diesel derived from vegetable oil, including domestically-produced soybean and canola oil, from the biomass-based diesel schedule," said NBB in its weekly email statement to members on May 1. "Vegetable oil is an essential feedstock needed to meet the RFS-2 biomass-based diesel targets; they simply cannot be met if vegetable oils are disqualified from the program."

At this point, US biodiesel capacity has dropped to "about 15%," said Jack Zedlitz, spokesman for GreenHunter Energy, the largest biodiesel maker on the Gulf Coast. In an interview, he blamed the low run-rate on a combination of the EU tariffs, an "extreme" drop in petroleum-based diesel prices since late last year and "difficult to come by" working capital and bank debt.

The EU duties, which were announced in mid-March, took a particularly heavy toll on US biodiesel producers, said Zedlitz. "We believe about 85% of biodiesel produced in the US went to Europe," he said. That included GreenHunter production, none of which is now headed overseas, said Zedlitz.

While he would not give more details or say whether his company has curbed output, Zedlitz did note that tank leasing is now the company's "most significant revenue stream."

New York Harbor-based Innovation Fuels is another producer that relied, at least in part, on demand from Europe to keep margins in place. Now, that

demand has been "shut down for all US producers, including us," said CEO John Fox in an interview Monday.

But while some companies have cut output or gone bankrupt, Innovation is actually seeing a spike in demand, said Fox. That is due to a combination of tightening supply, as former exporters halt production, and changes in state and federal renewables mandates, he said.

USGC PRODUCERS SET UP FOR EXPORTS

US biodiesel producer woes can be viewed on a regional basis, said Fox. The Northeast is "heating oil central...it's very easy for us to serve local customers," he said, noting there is also demand built in from new renewable rules either in place or being considered in states such as Pennsylvania, Massachusetts and New York.

However, many producers along the US Gulf Coast, like GreenHunter, are set up for exports and now face a sharp demand drop and production cuts, said Fox.

"We're seeing a lot of companies shut down," he said. "They just don't have the [domestic] outlets" that Innovation has in the Northeast. Limited US infrastructure to move biodiesel makes local demand especially important.

The National Biodiesel Board, which keeps track of US biodiesel production, could not be reached for comment.

Traders say that US biodiesel supply has dried up on the Gulf Coast since the mid-March EU duty announcement, boosting prices. On March 11, soy-based B99 (99% biodiesel-petroleum diesel blend) was assessed by Platts at \$1.64-1.65/gal, and it has risen steadily to hit \$1.85-1.86/gal on May 4.

Regional producers that cannot get a high enough price for biodiesel have simply stopped producing, say market sources; the only local demand is from government agencies legally obligated to use biodiesel.

"It seems that all the old inventory is running out and prices have to increase in line with replacement cost of new production," said one producer. Prompt sellers right now are asking over \$1.90/gal, the producer said.

Not all Gulf Coast biodiesel producer problems can be attributed to exports. One of the latest bankruptcies, Texas-based Nova Biosource, was "really more of a lender issue," said Jefferies & Company analyst Laurence Alexander in an interview. The problems that led to the company's end-March bankruptcy included volatile feedstock prices "and the fact that the lenders had significant exposure to other biofuels companies that also ran into difficulties," said Alexander. Nova Biosource could not be reached for comment.

Meanwhile, Innovation is making some money off biodiesel exports, said Fox, citing demand from Asia, Israel and Latin America.