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By Ben Lefebvre

HOUSTON (ICIS news)--The US biodiesel industry is looking to the nation's heating oil market as a potential source of 500m gal/year in new demand, sources said on Tuesday.

About 20 states, mostly on the mid-Atlantic and New England coasts, consume up to 10bn gal of heating oil annually in the US, according to trade association National OilHeat Research Alliance.

If a national B5 blend (95% mineral oil, 5% biodiesel) market for bioheat came into existence, that could turn into demand for about 500m gal of biodiesel, sources said.

Innovation Fuels' vice president of strategic accounts Ren Moore said his company, based in New Jersey, was one of the few large suppliers selling to the regional bioheat sector. He said most biodiesel sellers still focused on the fuel market, leaving a potentially large market relatively untapped.

"I'll bet no more than 20m gal of biodiesel goes into the market," he said. "Other suppliers don't see mandates, so they don't see demand."

Large-scale mandates may be becoming a reality, however.

Massachusetts passed legislation last year mandating a B2 blend (98% mineral oil, 2% biodiesel) for its heating oil supply by 2010 and B5 by 2013, and New York is looking at drafting a similar law, National Biodiesel Board (NBB) CEO Joe Jobe said.

With those mandates, more producers have started realising the potential advantages making inroads into the market, he said.

"All of New England is geared toward increasing bioheat use," Jobe said.

Michael Ferrante, president of the Massachusetts Oilheat Council, said small amounts of soy- and palm-based biodiesel were already being used to heat homes, but producers needed to do a better job educating consumers on the benefits of the renewable fuel to increase their market share.

Burning biodiesel emits less sulphur, good for consumers worried about indoor air pollution and states trying to meet regional greenhouse gas emissions targets, he said. Customers also do not have to make changes to their home heating system to use it.

With a little bit of a marketing push, biodiesel producers could find themselves with a winter demand stream that could soften the seasonal drop in road-fuel biodiesel usage, he said.

"They see a market. They're looking at this for growth potential," he said.