

# Sustainable future for Asia-Pacific

Companies that invest in new technologies or grow through mergers and acquisitions will emerge as winners in the buoyant Asian oleochemicals sector

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The oleochemicals industry in Asia should benefit from a global recovery that has broadened, in today's terms, to encompass more firms, countries and components of aggregate demand.

Better labor market conditions in high-income countries and increasing domestic demand in developing countries bode well for a continued global recovery that has been going on for almost two years. Overall, global growth is projected to ease from 3.8% in 2010 to 3.2% in 2011, as lingering post-crisis difficulties in the United States and the EU continue to pose downside risks, with ripple effects expected throughout 2012.

Developing economies, on the other hand, should expand by at least 6.3%, reflecting an end to bounce-back factors that served to boost growth in 2010 and the tightening of monetary and fiscal policies as capacity constraints increase.

Closer to home, the ASEAN economic community is set to spur member countries economic growth beyond 2015 as Southeast Asia is forecast to lead recovery. Domestic demand within East Asia and the Pacific is forecast to continue its domination in the Asia Pacific region until 2013. Intra-region trading, driven by strong internal demand in China and India, will further propel East Asian and Pacific growth rates, superseding the world average.

## MARKET DRIVERS

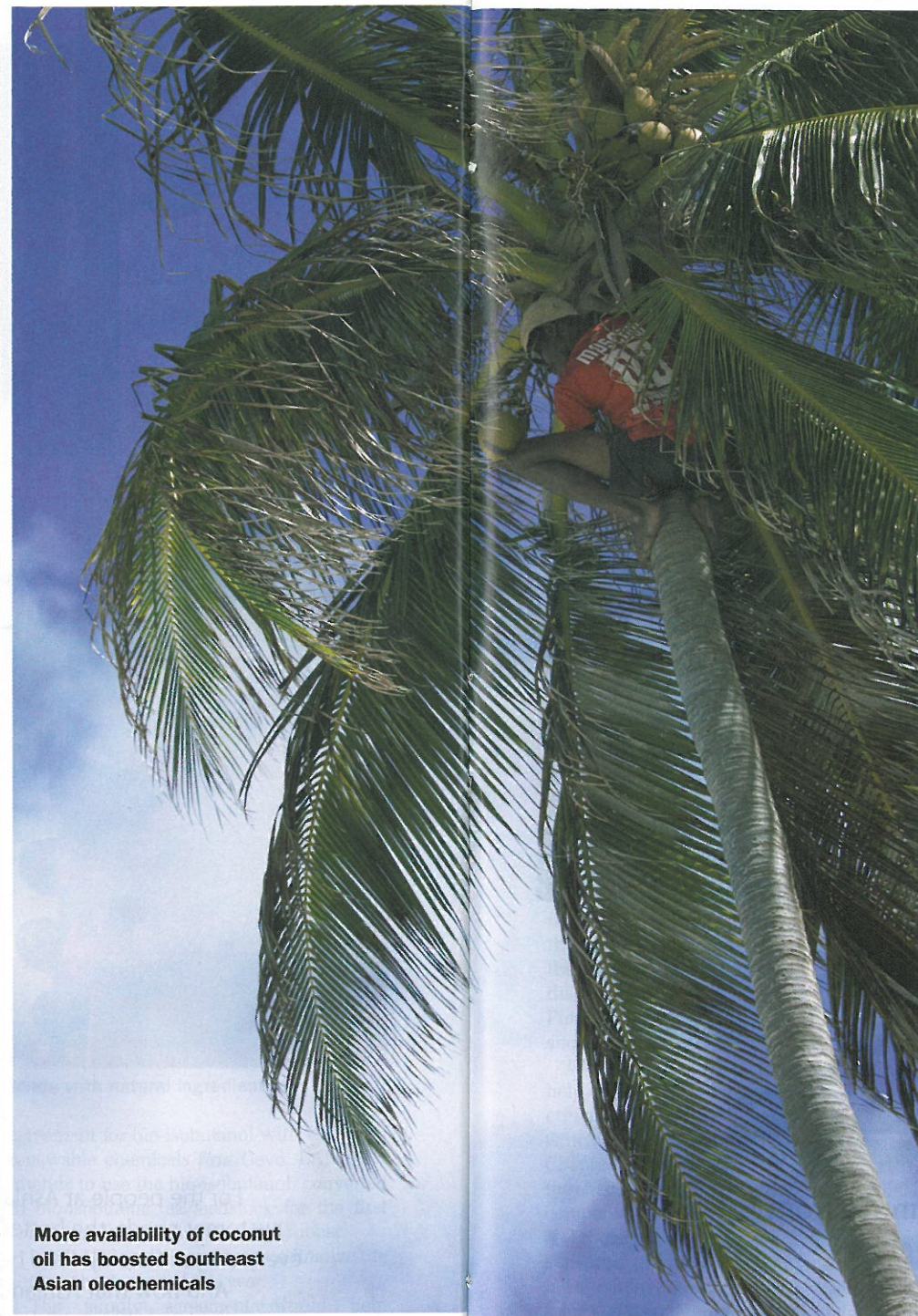
The oleochemicals industry is unique in that, despite the market volatility seen by most commodity-based business in the last decade, it has benefitted from an increasingly mature and growing market. New applications, innovation and demand for sustainable solutions have taken center stage.

Fueled by a hike in demand from a growing consumer market and wider availability of raw materials such as palm oil, palm kernel oil and coconut oil, the oleochemical industry in Southeast Asia; the world's leading oleochemicals manufacturing hub, is expected to enjoy strong growth from 2010 to 2012.

Here, oleochemical production is mainly centered on the manufacture of fatty acids, fatty alcohols, methyl esters and refined glycerin; which then go into end-use applications of surfactants, soap and detergents, cosmetics, food emulsifiers, paints and inks, and lubricants. Offering many advantages to oleochemical players, such as abundant raw material supply, lower manpower costs and improving infrastructure, key market drivers for the industry at large are:

- Rationalization and consolidation opportunities: downstream integration by large plantation companies that aim to capture additional value from their control of the key vegetable oil resources took the lead in consolidation efforts in 2008 and 2009, seizing opportunities in Europe and North America. Reduced profitability, low interest rates and capacity overhang worldwide provided room for acquisitions and consolidations in 2010. Industry players became more vertically integrated and better suited to leverage market drivers such as technological advancements and establishing market presence through consolidation. Improved earnings stability is now within reach.

- Growing and maturing markets: rising consumer demand for fabric, home and personal care products in Asia and Latin America are major drivers supporting growth. Demand in Southeast Asia for derivatives is spurred by the detergents, personal care, industrial, food and fuels market. This is encouraged by population growth, expanding middle class, in-



**More availability of coconut oil has boosted Southeast Asian oleochemicals**

creased focus on sustainability and the build-up of infrastructure, particularly in China and India. As China strives to be self-sufficient, India's oleochemicals demand will continue to increase at the compound annual growth rate of more than 7% CAGR. Oleochemical manufacturers will benefit from rising consumption as it fuels the development of pharmaceuticals and plastics.

tations in Malaysia and Indonesia give the ASEAN region a predominant supply position in the vegetable oil industry, leading the oleochemical industry's recovery momentum with Southeast Asia alone to produce about 3.5m tonnes in 2010.

- Green chemistry: stimulated by increasing demand for green chemicals and uses in new

## More stringent environmental regulations will affect the overall Southeast Asian chemical industry

applications such as biolubricants, green chemicals, bioplastics and biopolymers, industry players have further invested to advance product offerings in the high value derivatives segment. Consumer interest in renewable and sustainable products is a positive trend, with growing environmental push to provide products that are comparable with petrochemical-based solutions.

Just over two decades ago, Asia Pacific had no place on the oleochemical map. Almost 90% of the world's production of fatty acids and alcohols, and virtually 100% of all the other basic oleochemicals were produced in developed countries such as US, Europe and Japan. Today, the majority of global fatty acid expansion is centered in Asia while demand for fatty acid in US and Europe will be supplied via a combination of tallow and palm based material.

## MARKET CONSTRAINTS

Production and overhead costs will be significantly affected in the next two to three years as raw materials and energy prices may remain high; diluting the profits of market participants. With the rapid development of the chemical industry and surge in the biodiesel industry, raw material prices have continued to be extremely volatile.

The production of chemicals from refining and distillation processes consume high loads of energy, adding to overhead costs. Managing this in the larger business strategy remains key to profitability, as well as managing the entire carbon-chain.

The region's oleochemicals market shows a trend of polarization. Local players that lack investment or a partner to develop downstream products, remain on the commodity side in oil production. But firms investing in advanced technology, equipment and high-end production in Southeast Asia join forces with specialized partners to grow its presence and provide more solutions in areas such as anionic surfactants, personal care raw materials and food processing and fatty acids.

Critical to long-term viability, oleochemical business strategies must be able to: identify and leverage growth segments; systematically improve production and distribution efficiencies; and emphasize product quality and consistently innovate to drive product improvement and development.

Given that there are a limited number of end-customers, developing the right economies of scale and growing to a right size will ensure sustained business as even large-scale players are expected to witness a downward trend in revenues due to intense competition in the market. Forming strategic alliances that allow players to tap economies of scale and supplies of raw materials with plantation companies could prove to be a preferred route for the industry.

## KEY SUCCESS FACTOR

Many chemical companies are investing resources to further their participation in the "green" dialogue, as renewables and sustainability become more relevant to consumers. Product innovation in this space is anticipated as oleochemical players device ways to enhance product performance of even existing solutions that remain largely untapped. One such example is methyl ester sulphonate (MES), whose growth is propelled in mainly the surfactant market because of its higher biodegradability and environmentally-friendly characteristics.

More stringent environmental regulations will most certainly affect the overall Southeast Asian chemical industry. Europe and China alike, both important markets for this industry have taken measures to better control its exports of chemical substances. China's Reach regulation, in force since October last year, utilizes many of the measures of the EU's Reach, but also incorporates unique provisions specific to the country.

While regulators seek to harmonize all these rapidly maturing regulations, they will invariably increase production costs and could delay the time-to-market.

Other regulatory moves, such as those outlined by the Roundtable on Sustainable Palm Oil will also have an effect on a company's value chain as everyone rallies to participate in the global "green" agenda.

Emery Oleochemicals is experienced in providing materials for plastic additives and bio-lubricants. Now we are working to widen our portfolio in the home and personal wellness and surfactant segment through investments and joint ventures. ■



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