

Biodiesel Continues to Emerge as New Market

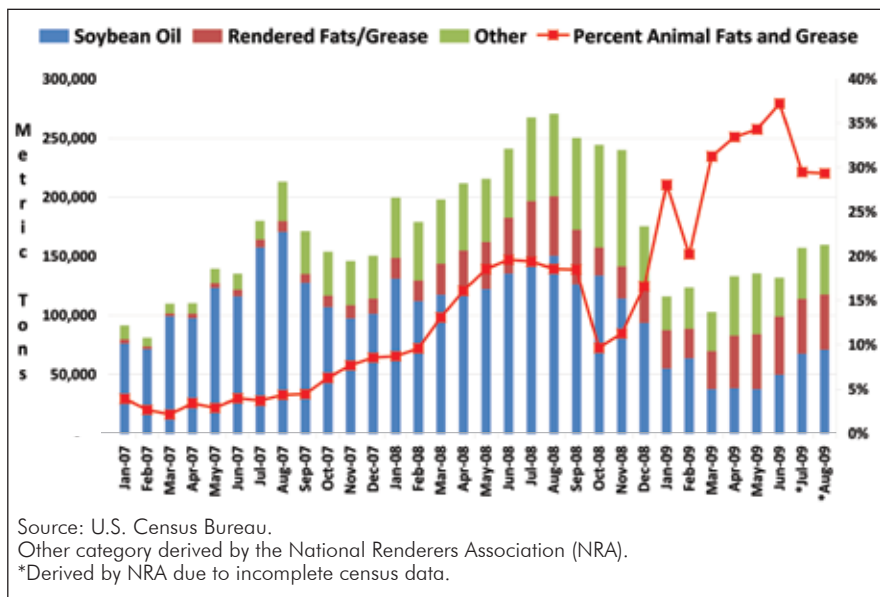
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Renderers have proven to be highly adaptable to changing market conditions over time. Animal fat and grease producers, and marketers in particular, have been faced with massive swings in market conditions over the last 100 years, even seeing markets disappear overnight, like in the 1950s when the U.S. soap industry turned to detergents that were made from petrochemicals. Tallow producers lost 40 percent of their market in a few years and fat prices dropped by 75 percent. The industry reacted by finding new markets for its product. Over a short period of time, and after much promotion by the industry, lost markets were replaced by the export marketplace and by the use of animal fats and greases in livestock feeds. As markets continue to evolve, renderers are now witnessing the formation of a new industry that is beginning to get a large appetite for rendered fats and greases. This, of course, is the biodiesel industry.

Over the last three years, the biodiesel industry has emerged as a major user of rendered fats and greases. In 2006, only negligible amounts of rendered product was used by the biodiesel sector. In 2007, approximately \$50 million of rendered product was used in biodiesel production, and by 2008 that amount increased six-fold to approximately \$350 million. Almost overnight renderers have a new market for their products worth close to half a billion dollars.

The rendering industry is a good fit for biodiesel producers as well. Rendered products are economical and sustainable. Historically, U.S. tallow prices are approximately 70 to 80 percent the price of soybean oil. On a historical basis, tallow has been a good buy compared to other raw materials for biodiesel production such as palm, rapeseed, and soybean oils. As the biodiesel industry struggles to be profitable, rendered products offer a good alternative to higher priced raw materials, as shown by the amount of rendered products going into the biodiesel industry (see chart). This is a win-win for both sectors as

Monthly U.S. Raw Material Usage for U.S. Biodiesel Production (2007-August 2009)



biodiesel producers pay a lower price for raw materials and renderers increase revenues.

In addition to being economical, rendered products are also a proven sustainable source of raw materials for biodiesel producers. The European Commission estimates a greenhouse gas savings of 88 percent for animal fats and waste vegetable oils as opposed to a 40

percent savings for soy oil and 45 percent savings for rapeseed oil.

It is clear that there is a future for rendered products in the biodiesel industry as it develops. However, renderers must find a balance to continue to provide its products to traditional customers in feed, pet food, and industrial industries while continuing to meet the increasing demands of biodiesel producers. **R**