

## Interest in biodiesel innovation is beginning to spread

**Chris Tighe** takes a look at two companies at the forefront of green fuel production

D1 Oils and Biofuels Corporation, the biodiesel companies, are following different business models but both have seen a huge rise in their share price since flotation, even before hard evidence emerges of their production capability.

The market capitalisation of each of these new AIM-listed companies is now about £100m, testament to investors' interest in companies that will contribute to the global drive to reduce greenhouse gas emissions.

Biofuels floated in June 2004 at 75p a share and D1 Oils in October at 160p. Their share prices yesterday closed at 229p and 420p.

Biodiesel is made from energy crops that produce vegetable oil, tallow or cooking oils. It can be blended with diesel, made from mineral crude oil, to benefit the environment by reducing harmful carbon emissions and airborne particulates. The production process, transesterification, results in biodiesel and glycerine.

To create its "green" fuel, Biofuels plans to use as its feedstock rapeseed, soya and palm oil; D1 Oils favours jatropha and has mounted a global campaign in tropical areas to increase planting of this fast-growing tree.

At present, the UK lags behind some other European Union countries, notably Germany and France, on biodiesel take-up. While the EU target is that biofuels should account for 2 per cent of all transport fuel sold in 2005 and 5.75 per cent by 2010 - an estimated demand of 10.5bn litres a year - the UK expects to achieve just 0.3 per cent this year.



**Fuelling the future:** Sean Sutcliffe 'would prefer to sell 5 per cent to all diesel users in the UK rather than try to grow a whole new market sector'

Richard Rayner

Biodiesel enthusiasts believe the fuel could comprise 20 per cent or more of a blend but carmakers focused on warranty obligations are more cautious, opting for 5 per cent biodiesel.

However, even this small percentage gives big possibilities. Sean Sutcliffe, Biofuels' chief executive, says: "I would prefer to sell 5 per cent to all diesel users in the UK rather than try to grow a

whole new market sector." Biofuels, with headquarters in Teesside, is building Europe's biggest biodiesel production plant, able to produce 250,000 tonnes a year, at Seal Sands, near the mouth of the Tees. First production is due this July, with full production by September. A second plant, at Seal Sands or in continental northern Europe, is planned. Although the £28m Seal

Sands plant is based on proven technology, licensed from Energea of Austria, the project has sustained delays to its original timetable and consequent cost overruns, arising from capital and working capital cost needs and hedging arrangements. Having raised £13m net at flotation, plus £17m debt from Barclays, Biofuels recently raised, via a placing, slightly more than £30m

net, plus £5m bank debt. Contracts have so far been agreed for the glycerine and with Petroplus for a quarter of the biodiesel. "We are talking to a range of distributors and refineries for the bulk of production," says Mr Sutcliffe. Some may be sold to Germany. Biofuels estimates its annual operating profit will be £14m (£30m before the hedging impact). The 20p discount on excise

duty helps biodiesel's viability but the fiscal instrument that could stimulate demand is the proposed Renewable Transport Fuel Obligation, now under government consideration. This would operate in a similar way to the power generators' Renewable Obligation Certificates. But D1 Oils insists the best option is a business model that needs no government subsidy. "We feel the

whole biodiesel industry worldwide is obsessed with the German market because that's where the biggest subsidy is," says Karl Watkin, chairman.

D1 Oils' aim is to be vertically integrated; it is securing jatropha plantation rights in many locations in Africa and other countries, including India, Madagascar and the Philippines, by joint ventures or by supply deals with growers. It has acquired refining technology to fabricate, in Teesside, transportable refineries for installation at jatropha plantations worldwide.

The biodiesel could be sold locally or internationally. Jatropha not needed by D1 could be sold to other producers - such as Biofuels.

This month, D1 Oils carried out seven days' continuous trial production of biodiesel, using rapeseed oil, in its first modular, transportable refinery. It intends that its first in-situ refinery, in Durban, South Africa, funded via an offset financing arrangement with Rolls-Royce, should be operational by the end of 2005.

While, for European motorists, the chance to buy 5 per cent "green" diesel may seem no big deal, an agreement announced last week by D1 Oils illustrates biodiesel's potential impact on poorer economies.

D1 Mohan, a joint venture with Mohan Breweries Distilleries, has clinched an agreement with the State Bank of India to provide 1.3bn rupees (£15m) to local farmers in Tamil Nadu to plant up to 40,000 hectares of jatropha. The deal, says SBI, will benefit small farmers and landless labourers.

Regardless of the business model adopted, interest in partaking in biodiesel innovation is spreading.

This is the fourth in a five-part series featuring smaller companies active in the renewable energy sector.

pre-tax losses.

Investors reacted positively to the news of a possible demerger of the group's digital camera business.

Character said it was "seriously considering" demerging World Wide Licenses - which sells digital cameras and accounts for half of group sales - from its toys, games and gifts business that distributes Robosapien, the burping robot that was the hit toy of last Christmas.

Richard King, chairman, said: "The businesses are separate - the investor who understands toys and gifts is not the same investor interested in the technology business. The move will also allow the management of each business to focus on that business."

One analyst added: "It would appear that someone has added up the potential of the two divisions as separate entities and that comes to a figure greater than the closing price last night."

The demerger will not occur before the group moves from the main market and lists on Aim. Character is also seeking an admission to Aim for World Wide Licenses's shares.

The company also announced that it was searching for a new chief executive. Enrico Preziosi, current chief executive, will become non-executive vice-chairman of Character.

Character recorded pre-tax losses of £1.9m (£2m profit) for the six months to February 28. Turnover rose from £40.9m to £43.4m.

A fall in demand in the worldwide digital camera market and a difficult UK retail environment led to the group's disappointing first half.

However, the company said: "Our businesses will witness an improved performance during the second half, which we expect to continue into the next financial year."

The group maintained its interim dividend at 1.1p and made losses per share of 3.8p (4.22p earnings). Its shares rose 7p to 40½p yesterday.