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Ethanol plants in troubles as Vietnam's plan to boost biofuel fails

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An ambitious plan by the Vietnamese government to encourage the use of biofuel, or ethanol-mixed petrol, is not working as well as expected, sealing the fate of three multimillion-dollar ethanol plants.

The ethanol making facilities were built in anticipation of what is hoped to be rising demand for E5, a blend of five percent ethanol and 95 percent fuel. But two have already had to shut down, while the remaining one is struggling to maintain production.

In 2007 the government approved a plan to gradually replace fossil fuels with biofuel by 2025, in a bid to ensure energy security and protect the environment.

Vietnam was therefore expected to produce 150,000 metric tons of biofuel between 2011 and 2015, and 1.8 million metric tons by 2025, meeting some five percent of the country's petrol demand, according to the plan.

Starting June 1, 2016, it will be required that 100 percent of filling stations in the country's eight biggest cities will sell E5 instead of the popular A92 gasoline.

However, demand for E5 fuel has not been as high as expected, with consumers reluctant to change their habit, and refusing to change to an unknown product that costs the same in any case.

The supply of ethanol used to make the biofuel has therefore

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exceeded demand, putting the production facilities in trouble.

Beleaguered facilities

Bio Ethanol Dung Quat, located in the central province of Quang Ngai, has already been shut down as there were no buyers for its products.

The US\$80 million facility was developed by the PetroVietnam Central Biofuels JSC, a subsidiary of the state-run oil and gas PetroVietnam, and was hoped to become a cheap supplier of biofuel for the market.

There are now only 50 engineers on staff, left for maintenance tasks at the costly plant.

In the southern province of Binh Phuoc, the Ethanol Binh Phuoc plant, developed by Orient Bio-fuels Co. for \$84 million, has also been closed after only a short trial run.

Weeds and grass now cover the 44 hectare facility, and only a handful of people remain in charge of taking care of the plant.

ITOCHU Corporation, the Japanese investor that held a 49 percent stake, has rushed to sell its holding at a 35 percent discount on the real value, even before the facility was commissioned, clearly trying to 'escape' from what has now proven to be a bad investment.

At the same time, PetroVietnam has had to cease construction of another ethanol plant in the northern province of Phu Tho, which broke ground in June 2009.

The developer cited "various reasons" for the cessation, one of which was a proposal to increase prices by the main contractor which was not accepted by the project's shareholders, according to the Ministry of Industry and Trade.



E5 petrol must be cheaper

According to experts and industry insiders, the only way to save those ethanol plants from shutdown is to increase demand for biofuel, which they said is not an easy task.

Consumers currently do not find the need to switch from A92 to E5 fuel, mostly because the prices are not attractive, they said.

"It is only VND500 a liter cheaper to use E5, and I am used to refilling my motorbike with A92," said Nguyen Thi Hoai Giang, a Ho Chi Minh City resident.

"The government has to have policies to ensure it is cheaper to use biofuel than fossil fuel to encourage consumers."

Nguyen Van Thu, chairman of the Hanoi-based fuel firm Tu Luc

1, said the difference between E5 and A92 gasoline should be at least VND1,000 to attract consumers.

In the meantime, Ngo Tri Long, an economic expert, recommended that the government make it compulsory that state-owned vehicles only use E5 gasoline to boost demand.

“Once the government sets such an example, it will make the public believe in the quality of biofuel,” he said.

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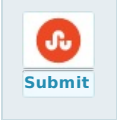
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