

INSIGHTS – MARKET COMMENTARY

SOUTHEAST ASIAN UCO EXPORT DYNAMICS

Supply tightening amid biofuel mandates and certification challenges

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The Southeast Asian used cooking oil market faces a structural pivot in 2025-2026. Indonesia and Malaysia, historically the world's largest UCO exporters given their dominant palm oil processing infrastructure, are systematically restricting feedstock availability to domestic biofuel programs. This supply contraction comes at a moment when European regulators have identified systematic certification fraud affecting over 1.8 million tonnes of POME material annually. The implications are material: tighter regional UCO supplies, upward pressure on landed costs for EU importers, and a shifting trade geography that favors domestic Asian conversion capacity over overseas shipment.

The core dynamic is straightforward. Indonesia implemented restrictions on crude used cooking oil and palm oil mill effluent (POME) exports in January 2025 in preparation for its B40 biodiesel mandate, which requires blending 40 percent palm oil or residues into diesel fuel. The government has allocated 35.5 trillion Indonesian rupiah (approximately USD 2.1 billion) in biodiesel subsidies for 2025 alone to support domestic consumption. Malaysia is moving along a similar trajectory: while still permitting UCO exports, policymakers are publicly considering export curbs to secure feedstock for emerging sustainable aviation fuel production. Both countries recognize that their palm oil mill infrastructure generates massive waste streams—from January through October 2024, Indonesia exported 3.45 million tonnes of POME and similar residues, surpassing crude palm oil exports at 2.70 million tonnes—and they are now choosing to monetize this feedstock domestically rather than ship it overseas.

This reallocation of supply occurs against a backdrop of serious regulatory scrutiny. The European Union's fuel regulator has determined that approximately 1.8 million tonnes of fraudulent ISCC-certified POME material entered EU markets in 2023. The fraud typically involves the systematic reclassification of crude palm oil as waste byproduct to avoid higher export taxes and tariffs. An active Indonesian probe in 2025 has implicated local companies and government officials in conspiracy, bribery schemes, and false documentation. ISCC, the largest feedstock certification body, acknowledged these shortcomings in April 2025 meetings with the European Commission and has announced strengthened verification procedures for waste and residue streams. The practical effect is heightened audit friction on all Southeast Asian UCO shipments and increased compliance costs for suppliers.

Parameter	2024 Baseline	2025-26 Outlook	Driver
Indonesia POME + UCO exports	3.45M tonnes (Jan-Oct 2024)	~2.8-3.0M tonnes	B40 domestic feedstock allocation
Malaysia UCO policy	Open exports	Likely restricted	SAF production ramp-up

Parameter	2024 Baseline	2025-26 Outlook	Driver
China export tax rebate	13% rebate	0% (effective Dec 2024)	Domestic renewable diesel demand
Fraudulent POME in EU (2023)	1.8M tonnes		Misclassification for tax avoidance
Indonesia B40 biodiesel subsidy cost	35.5 trillion IDR (~USD 2.1B)		Annual support for domestic blending

Table 1: Southeast Asian UCO Market Parameters, 2024-2026

"Both Indonesia and Malaysia are choosing to monetize palm waste streams domestically rather than ship them overseas, creating a structural reallocation of feedstock that will reshape the EU-Asia UCO corridor."

The Domestic Mandate Calculus

Indonesia's B40 program represents an unprecedented fiscal commitment to biofuel absorption. At 15.62 million kiloliters of crude palm oil demand in 2025, the program consumes feedstock that might otherwise have been exported. The government's cost structure—subsidizing biodiesel to keep retail fuel prices below cost—is politically essential but financially strained. The 2026 biodiesel quota stands at 15.646 million kiloliters, essentially flat year-over-year, which has prompted policymakers to slow any escalation toward the B50 target originally scheduled for 2026. President Prabowo Subianto directed the government in early 2026 to maintain B40 temporarily while technical and automotive trials continue, signaling that the supply equation constrains policy ambition.

Malaysia's trajectory differs in timing but aligns in outcome. The country is not yet operating a mass biodiesel mandate comparable to Indonesia's B40, but sustainable aviation fuel production is accelerating. SAF requires refined, traceable feedstock—UCO meets this requirement—and Malaysia's industrial strategy explicitly prioritizes capturing this higher-value conversion rather than exporting raw material. When Malaysia formalizes UCO export restrictions, the timing will coincide with SAF capacity coming online, ensuring that the policy shift captures existing supply rather than disrupting it.

Certification Challenges and Trade Flow Shifts

The certification fraud uncovered in Southeast Asian POME markets has immediate implications for cost and compliance. Suppliers must now absorb heightened audit procedures, third-party verification, and supply chain documentation that ISCC is tightening across the board. In effect, the cost of compliance has risen, compressing margins on lower-quality or suspect material. This dynamic favors larger, better-capitalized exporters with established documentation infrastructure and disfavors smaller trading houses or informal collection networks that historically supplied POME to commodity traders.

China's December 2024 elimination of the 13 percent export tax rebate on UCO signals another tectonic shift. The rebate had made Chinese exports highly competitive on landed-cost basis; its removal diverts Chinese UCO toward domestic renewable diesel and SAF production. Combined with Indonesia and Malaysia's domestic allocation priorities, the global UCO supply picture is tightening from multiple

vectors: reduced Asian exports (primary supply source), increased domestic Asian conversion demand, and elevated compliance costs that reduce the attractiveness of marginal barrels.

The result is a bifurcation of trade flows. Premium-quality, fully certified UCO with clear provenance and traceability will command tighter prices and attract European SAF and advanced biofuel producers. Lower-grade residues or material with weaker documentation will face longer hold times, deeper price discounts, or potential rejection at destination. European importers will likely accelerate shift toward longer-term supply agreements with vetted suppliers and may increase investment in domestic UCO collection to hedge regional supply risk.

Tornavia View

The Southeast Asian UCO corridor is entering a multi-year period of constrained availability. The structural drivers—biofuel mandates in Indonesia, SAF capacity addition in Malaysia, and China's fiscal repositioning—are durable policy choices, not cyclical swings. Certification friction, while likely to ease as ISCC operationalizes its new procedures, establishes a permanent increase in the cost of doing business on disputed or marginal material.

For traders, the implication is clear: sourcing strategies must anticipate tighter margins on commodity-grade material and focus on secured supply relationships or higher-value niches. The EU-Asia UCO trade will likely contract in volume but compress toward higher-quality barrels. Pricing power will accrue to exporters with scale, logistics infrastructure, and compliance systems; it will erode for traders dependent on spot-market access to undifferentiated feedstock. The traditional physical arbitrage on crude residues faces structural headwinds; the opportunity set tilts toward value-added intermediation and forward-contracting with converting capacity.

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