BIODIESEL MARKET REPORT

Contents

Issue No. 152
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Square Commodities

1. Market Status

As of May 11, 2016 | EUR/USD 1.138

PFAD soon as expensive as…RBD?

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PFAD was this week priced at around USD 680/mt on a Cif T1 Italy basis. That's closer and closer from RBD palm oil, valued this week at USD 765/mt Cif T1 Rotterdam. Like underlined by the Norwegian Ministry of Environment (see BMR n°150), the recent sharp increase of the PFAD price is putting a cast of shadow over its status of waste. In parallel of its massive use by the HVO segment, the demand from Italy has recently pressured prices further. Although there is still ample supplies, new players like Total at its HVO refinery in La Mède or other refiners using the feedstock for co-processing, may in the future exercise more tensions on price. In these conditions, some countries may start to think (like Norway) that the incentive to produce PFAD is as important as producing RBD palm oil, causing therefore a possible issue of sustainability. For now, we don't except the Italian government to move against PFAD double counted before year-end, but 2017 may see decisions against it.

BIODIESEL PREMIUMS	USD/mt	(Δ)	EUR/cum	Non-RED
Fame 0° RED vs ICE Gasoil	470	-5	365	-40
RME RED vs ICE Gasoil	470	-10	365	-40
UCOME EU RED vs ICE Gasoil	605	0	469	-25

BIODIESEL RED FOB ARA	USD/mt	(Δ)	EUR/cum	Replacement Costs USD/mt	Replacement Costs (vs spot)
Fame 0°	885	15	687	882	-3
RME	885	10	687	937	52
SME	885	15	687	947	62
PME	865	20	671	827	-38
UCOME EU	1 020	20	791	907	-113
TME cat.1	1 005	15	780	687	-318

BIODIESEL RED FOB ORIGIN	USD/mt	(Δ)	EUR/mt	2016 RINs (cts/RIN)	
SME Argentina	750	40	659	D4	80
PME Indonesia	780	10	685	D5	76
				D6	74

FEEDSTOCKS DDP NWE	USD/mt	(Δ)	EUR/mt
Rape oil	820	-5	721
Soy oil	820	35	721
Palm oil	720	-20	633
UCO EU	750	-5	659
Tallow cat.1	560	25	492
FFA 60%	560	-35	492
Methanol EX-W NWE	255	-5	224

SPREADS	USD/mt
ROGO	404
BOGO	312
POGO	248
UCOGO	334
TALGO	144

GLYCERINE	USD/mt	(Δ)	EUR/mt
Crude EX-W NWE	240	-20	211
Refined EX-W NWE	565	-15	496
Crude FOB ARGENTINA	90	0	79
Refined FOB ARGENTINA	380	0	334

OTHER FUELS	USD/mt	(Δ)	EUR/mt
Diesel 10 ppm FOB NWE	410	20	360
Gasoline FOB NWE	500	-10	439
Ethanol anhydrous FOB ARA	740	65	650

FUTURES	USD/mt	(Δ)	EUR/mt
ICE Gasoil	416	21	366
CBOT Soy oil	728	20	640
BMD CPO	664	11	583
Euronext Rapeseed	420	7	369

2. Spot Market

ARA
UCOME hit EUR 900/mt

Business sentiment on the biodiesel market in ARA proved to be fairly good this week. Prompt positions of Fame 0° and RME have been well traded while interest for UCOME materialized in several good deals for June and early Q3. Producers finally reached their objective, pursued for several months, to push the quote at EUR 900/mt Fob ARA.

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A total of 14 KT of Fame 0° and RME have been traded within the window between Monday and Wednesday. For the first time since almost a year, the two qualities traded at the same level, both close to USD 470/mt over gasoil yesterday. The level of premiums has been rather resilient to the correction of feedstock to gasoil spreads (ROGO down USD 25/mt on week), losing only USD 5-10/mt. With the rapeseed lean season in sight, some players doubt RME producers would be able to easily produce at such levels in Q3, anticipating a tighter market in the coming months.

But the real focus of the market was once again on UCOME, with the latest batches of June traded at EUR 900/mt Fob ARA, or USD 1020/mt, the highest level since September 2014. Because the latest volumes available for June were highly demanded, some buyers paid the same price for a regular GHG level (90%) than for a high GHG level (93.5%). As a consequence, the premium paid for high GHG parcels by German buyers has been (temporarily let's guess) quoted close to EUR 0/mt. Now the high season for UCOME is here, some little missing volumes (from Biocom for example) make finally a difference for the balance of the market. The first parcels of UCOME for Q3 were also sold this week, at EUR 900/mt. On the TME segment, sellers demand the same price as UCOME for the Italian market. Tensions on the tallow market are clearer and clearer, with some deals reported at very high levels for good quality (max 15) parcels. We increased our assessment of tallow cat.1 at EUR 500/mt ddp NWE, with some room for further increase in the coming weeks.

The news on the biofuels market was also fuelled this week by the sudden increase of ethanol prices, after Abengoa announced it would close its 380 Kcum/y plant in Rotterdam. Although the company said the shut down would be temporary, several players didn't buy that scenario. The next big clue is to know if Abengoa will be able to keep its ethanol plants in Spain running or not. By October, when the company is due to have found enough financing to avoid definitive bankruptcy, things will be clearer. In the meantime, ethanol continues to be an attractive alternative to Fame/HVO in Spain in terms of costs for mandate compliance. The sudden increase of price is also opening perspectives of arbitrage for traders willing to bring product from Brazil. However, good international demand for Brazilian ethanol (notably in California) and supply issues may delay the arrival of volumes, and favour Fame and HVO in Rotterdam.

Shipping
Latest fixtures reported

FAME	
5'650 mt Ghent/El Pallice+Ambes	(24-25/04)
5'000 mt El Ferrol/Rotterdam	(03-05/05)
4'000 mt Ravenna/Sete	(04-05/05)
5'000 mt Algeciras/Cartagena	(27-28/04)
5'000 mt Castellon/Algeciras	(01-02/05)
4'000 mt Rotterdam /Pembroke	(01-02/05)
2'750 mt Rotterdam /Thames	(05-06/05)
3'000 mt Rotterdam /Immingham	(09-11/05)
2'400 mt Constanza/Thessaloniki	(06-07/05)
6'000 mt Constanza/W. med	(06-07/05)
5'000 mt Barcelona/Napoli	(04-05/05)

RME	
3'500 mt Klaipeda/Holmsund	(01-02/05)
6'000 mt Ventspils + Klaipeda/Sweden	(04-05/05)

SME	
18'500 mt Argentina/USAC or USG	(01-10/05)
11'700 mt Argentina/Peru	(05-10/05)

PME	
5'000 mt El Ferrol/Ghent	(02-03/05)

HVO	
10'000 mt Venice/Bordeaux and/or Rotterdam	(03-05/05)

3. Charts

UCOME flat price hit 20 months high

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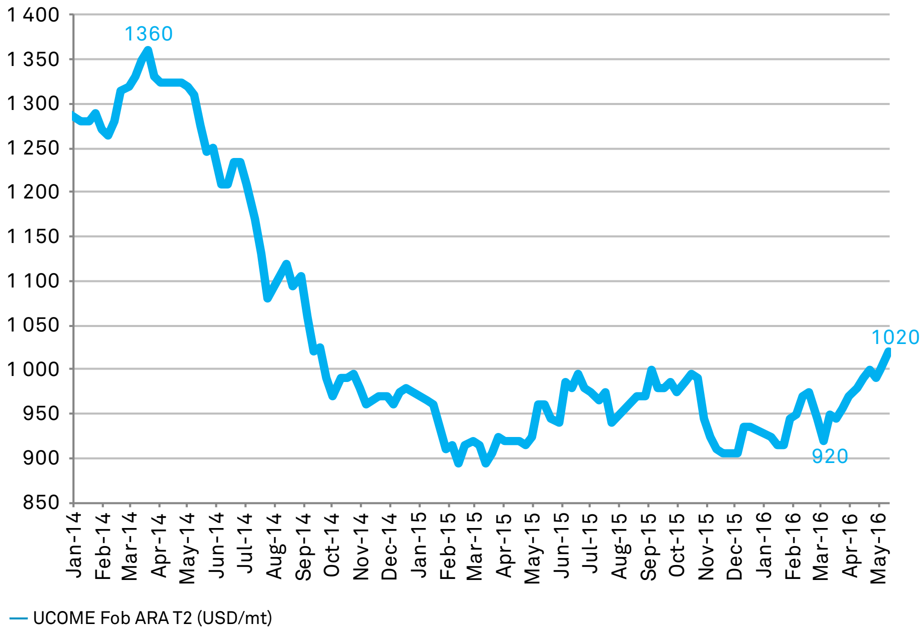
The continuous interest for UCOME finally made some buyers pay the EUR 900/mt symbolic mark this week. Surprisingly, this price has been also paid for parcels with regular GHG savings (90%). The premium paid over Fame 0° was close to USD 165/mt, also for Q3.



UCOME success continues in Ireland

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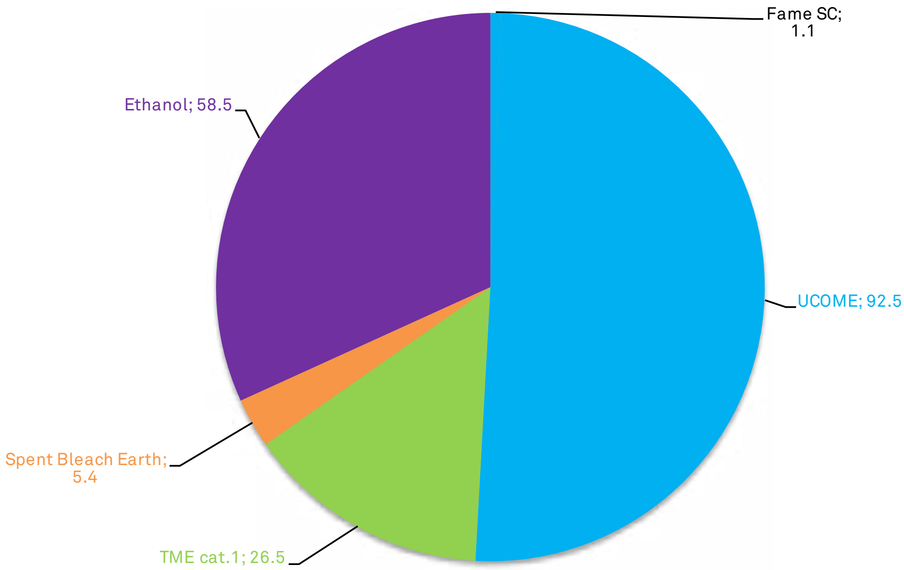
Fresh data published by NORA show UCOME use in Ireland has been very solid last year, with a 31% increase on year. Single counted has been completely ignored by blenders while TME volumes used remained stable. The progression of Spent Bleach Earth show Irish operators are keen on developping new supply chain of DC products.



■ Market shares of biofuels used to generate BOS certificates in Ireland, 2015 (Kcum)

Biodiesel up, HVO down despite imports

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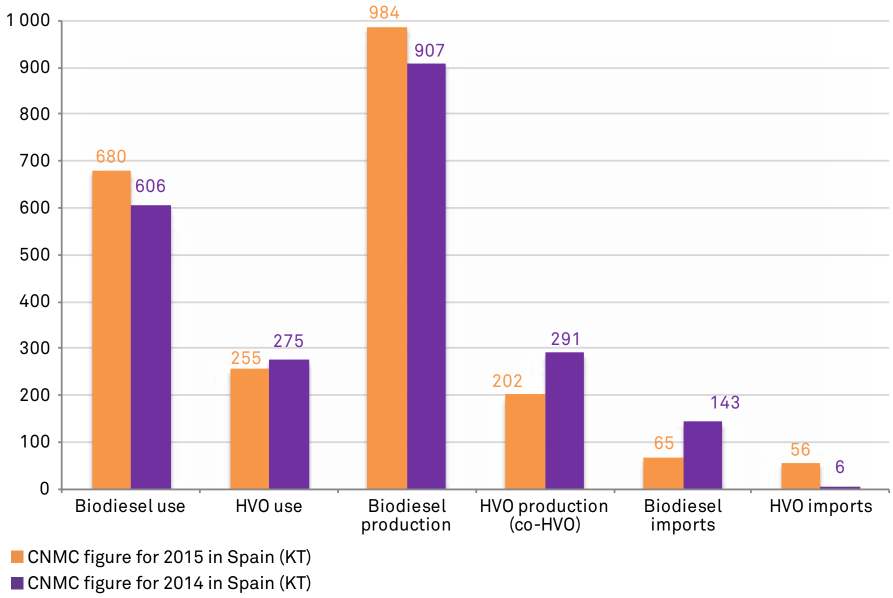
The fresh set of data released today by CNMC provides a lot of interesting insights about the Spanish market in 2015. Fame demand was up 12% on year while production of HVO locally decreased - unexpectedly - by 30%. The other surprise is the rebirth of HVO imports at 56 KT, which may continue in 2016.



PME accounted for 47% of the Fame/HVO

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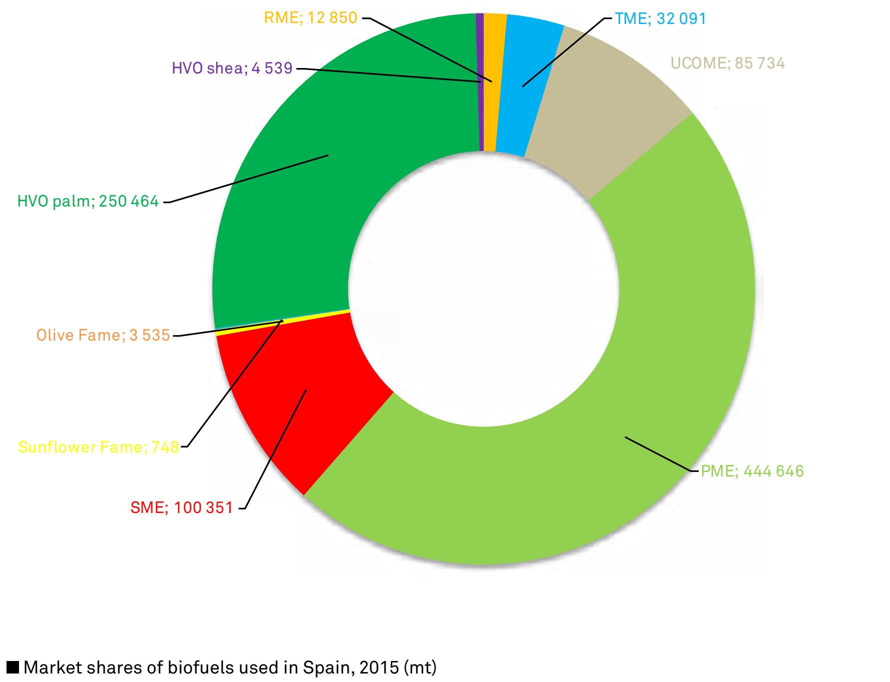
The CNMC data highlighted the growing reliance on PME in Spain last year, which accounted for 65% of the biodiesel segment and 47% of Fame/HVO total market. UCOME was the third quality of biodiesel used, just behind SME, despite the absence of double counting. RME use significantly decreased, despite the relative small spread between palm and rape in Q2 and Q3 2015.



4. Regulatory

Portugal
Biodiesel protectionism soon over?

The EU Commission said last week it sent a reasoned opinion to Portugal about the RED compliance, which targeted specifically the biodiesel market. In the wake of the abandon of the biodiesel quota by Spain last week, one of the last barrier to the EU free market is about to be removed in Portugal.

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We have several times explained how the Portuguese government unilaterally blocked biodiesel imports after the end of the biodiesel quota in December 2014. This practice has been finally, 17 months after, condemned by the EU Commission. It recalled that “Member States are obliged to treat sustainable biofuels and the raw materials from which they were made equally, regardless of their country of origin.” According to the Commission, the Portuguese legislation on biofuels is contrary to the RED directive because “it favours biofuels produced in Portugal over biofuels of other countries of origin that are equally suitable, but produced elsewhere”. Because ethanol imports have been current since last year, it is clear that the Commission points out specifically the blockage of biodiesel imports, that must be ended to respect the EU law. The Commission also highlighted that the biofuels legislation in Portugal “imposes stricter sustainability requirements on some biofuels, without this being warranted by the Directive.”
We know that previous examples, including a reasoned opinion sent last year to Spain about the biofuels certification, have been followed by concrete decisions pretty soon. The tone used by the Commission appears to be especially severe as it said “Portugal has two months to address the Commission's concerns; otherwise the Commission may decide to refer Portugal to the Court of Justice of the EU.” According to us, the fault is clearly identified and the Portuguese government has no little room to negotiate. We therefore anticipate that the Portuguese Fame market shall open up to biodiesel imports by the end of this year. Two options here: 1) the government may simply clear all the import demands done by Portuguese operators but all refused so far, or 2) it may change the law by decree to end the system of authorisation needed to import biofuels. All in all, we bet it should be soon the end of the protectionism era for the Portuguese biodiesel market. Several UCOME, RME and PME foreign suppliers are likely to take advantage of this new matter of fact soon (at the earliest in Q3 though).

EU
10% target likely scraped after 2020

The Chief for renewables at the EU Commission has last week confirmed that the 10% e.c subtarget for renewables into transport would not be included into the Commission proposal to be released by year-end. However, it doesn’t mean the death of the EU biofuels market in the 2020’s.

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The confirmation by the Commission that the specific target for renewables into transport would disappear from the post 2020 renewable directive may seem terrifying for biodiesel operators; but it’s actually only a political trick to calm the food vs fuel debate down. It’s now likely that Member States (MS) will not be required anymore to reach specifically 10% e.c renewables into transport after 2020, but will instead enjoy a greater level of flexibility.

However, the majority of them will not scrap blending mandates, simply because they will need it to reach the overall renewable goal (27% e.c talked currently) to be set for 2030. MS’ efforts to increase the global share of renewables into their energy use will already be huge without scraping the transport renewable share. The EU Commission clearly stated that “a significant contribution from renewable transport fuels will be required to meet the overall EU 2030 decarbonisation targets”. The 2030 Impact Assessment of January 2014 estimated that achieving the agreed 2030 framework objectives would require a contribution of 14-16% renewable energy in transport. MS will enjoy more flexibility, some like UK may be choosing to freeze biofuels use, but it's a fact that renewable into transport can't be avoided and that biofuels will until 2030 make the bulk of it.

Alternatively, to the 10% RED target, the Commission is currently studying various paths including incorporation obligations. This measure, which is already contested by the environmental ngos, would impose a minimum biofuels content directly to fuel distributors. For example, E10 and B7 could become mandatory everywhere in Europe in order to guarantee a minimum of renewable into transport. The will of the EU Commission is to consolidate the biofuels segment while avoiding bad press through the increase of the 10% e.c target. Moreover, economic interest from the agricultural and biofuels sectors are far too important to be simply ignored by the post 2020 energy policy.

Public consultation closed this week

The consultation period for the sustainable bioenergy policy after 2020 closed on May 10. The EU Commission will publish the comments on its website, later this year. These contributions from stakeholders, including many operators from the biodiesel market, will fuel the Commission's work to finalize its proposal for an EU bioenergy sustainability policy after 2020, expected by year-end.

Switzerland
New sustainability rules by August

Already more constringent than in the EU, palm and soy based biofuels being de facto excluded from the tax break scheme, sustainability rules applied to biofuels have been reinforced in a new piece of law published last week. From August 1, 2016 importers and producers will have to demonstrate new sustainability evidences, notably on the social aspect, which could have an impact on uco origination.

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As you may have read in previous Square Commodities reports, imports of biodiesel in Switzerland is experiencing a significant trend up. Incentivized by a huge CHF 720/cum tax break, use of easily demonstrable sustainable biofuels (mainly UCOME from Germany) has took off over the last two years.

The new ordinance aims at 1) harmonizing the Swiss biofuels law with the EU law, 2) increase the executive power of the government against a possible increase of biofuels that would not meet sustainability criteria for tax breaks and 3) introducing a more constringent control on respect of social criteria. For example, the new law introduced the interdiction to source biofuels made from feedstocks cultivated on a high carbon stock land re-affected after January 1, 2008.

However, because the current law was already well equipped with rules against imports of biofuels in competition with food, the new ordinance will have no impact on vegetable based Fame (already very poor). The only practical impact could be an increased complexity to demonstrate uco imported from Asian or African meet the new social criteria. However, because the volumes remain limited (38 kcum of Fame (mainly UCOME) imported in 2015), suppliers should have no problem to source only uco originated in the EU or the US.

5. Statistics

Ireland
UCOME use up 31% in 2015

Reliance on DC products on the diesel segment reached back levels hit in 2013, close to 100%. UCOME, TME and increased volumes of Spent Bleach Earth constituted the bulk of the biodiesel market that totalled 125.5 Kcum, up 10% on year.

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The National Oil Reserve Agency (NORA) published this week the Biofuels Obligation Scheme (BOS) annual report for 2015. The well furnished document describes a biofuels market still in progression during last year (+ 10%), after a solid progression recorded in 2014 (+21%) notably on the increased use of single counted biodiesel. The rapid expansion of the diesel segment (69% of fuels sales in 2015, vs 60% in 2012), coupled with the building of a significant surplus of certificates, explain the solid growth despite the freeze of the blending mandate (6% vol.) for the last three years. Last year, a total of 309 million of certificates were issued, against 278 million needed to reach the obligation. At the end of 2015, up to 70 million of certificates were in surplus for use in 2016 (max. 20% of the obligation).

Like in UK, the dominance of UCOME (50% of the biofuels market) implied that the origins of the feedstocks used under the BOS were very numerous. The US, Netherlands, Saudi Arabia, Germany, Spain and UK were among the main origins for uco. In parallel, biodiesel made of Spent Bleach Earth reached 5.4 Kcum, a huge increase on year (0.3 Kcum only in 2014). Another consequence of the UCOME jump was that the average GHG reduction achieved by biofuels in Ireland stood high at 79%. The team at NORA calculated that the physical use of biofuels (4% vol.) decreased GHG emissions by 2.8%. This figure is however lower than the actual one, as default values have been used for small quantities of RME and TME. The country will have to reach 6% by 2020.

For 2016, the relatively high levels of premiums vs gasoil may push more operators to cut their certificates' surplus. On the other hand, the planned increase of the blending mandate to 8% vol. will be a supportive factor for physical blending. All in all, we expect a rather stable year compared to 2015, with may be another push from Spent Bleach Earth or other minor waste based qualities.

IRELAND BIOFUELS MARKET

(Kcum)	2015	2014	*Growth*
Fame SC	1.1	15.7	*-93%*
Fame DC	124.4	98.3	*27%*
Fame total	**125.5**	**114**	*10%*
UCOME	92.5	70.5	*31%*
TME cat.1	26.5	27.5	*-4%*
Spent Bleach Earth	5.4	0.3	*1700%*
Ethanol	**58.5**	**53**	*10%*
Biofuels total	**184**	**167**	*10%*

Ireland imported 47 KT of Fame last year

Eurostat data puts the figure of Fame imports at 47 KT, or 53 Kcum. That would mean the ratio of dependency from abroad suppliers was around 42%. The suppliers of Ireland last year have been the Netherlands (29 KT), UK (12 KT), Spain and Germany (3 KT both).

Spain
Co-HVO production down 30%

The institution in charge of biofuels certificates finally published the 2015 data for sales of biodiesel, HVO and ethanol. This very interesting set of data confirms some trends including Fame use up 12% compared to 2014 and the stabilisation of the ethanol use. It also highlights unexpected (for us) developments including fall of local HVO production by 30% and sharp increase of HVO imports by 800%.

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After a white year in 2014 for HVO imports (6 KT, nothing during Q2-Q4), things improved more than expected in 2015 for abroad suppliers with 56 Kcum delivered in Spain, up 800%. That despite a drop in HVO consumption by 7% to 255 KT. In parallel, Repsol and CEPSA produced together only 202 KT of co-HVO, down 30% from 291 KT in 2014. The magnitude of the fall is clearly unforeseen, as their ability to co-process more and more volumes of vegetable oil along the next year was pretty clear. The finding, according to us, tells a lot about the aptitude of foreign HVO suppliers to react to market conditions and adapt their prices/margins when they decide to reconquer a market. Co-processing can be a very powerful tool for mandate compliance, however it is not always the most efficient approach. Let's also note that Repsol and CEPSA started to export small quantities of HVO (18 KT in 2015 from 0 KT in the previous year), a trend that decreases further the reliance on co-HVO for the mandate compliance.

Regarding biodiesel, use has been up 12% to 680 KT in 2015. As a consequence, market share of HVO vs biodiesel was finally down on year to 27% vs 31% in 2014. In Q1-15, the ratio was recorded at 43%, and then fell sharply (as low as 12% in June) during the summer period. Biodiesel local production progressed by 8% to 983 KT, stimulated by local demand. Trade of biodiesel, according to CNMC, decreased sharply with imports down 55% (to 64 KT) and exports down 18% (to 300 KT). In parallel, the ethanol segment remained stable in 2015 compared to 2014. The resilience of this stability (or not) will be key for the Fame market in 2016.

The data are also very interesting to draw the exact picture of the feedstock mix for last year (see table below and graphs also). Compared to 2014, it evolved like following: 1) PME increased its dominance from 55% to 65%, 2) UCOME progressed slightly from 10% to 13% 3) TME was stable with 5% and 4) SME (15% in 2015 vs 20% in 2014) and RME (2% vs 10%) were both down. Small quantities of olive oil (3.5 KT) and sunflower oil (0.7 KT) based Fame have also been used.

SPANISH FEEDSTOCK MIXES IN 2015

	Share	Quantity (mt)
RME	1.89%	12 850
TME	4.72%	32 091
UCOME	12.61%	85 734
PME	65.40%	444 646
SME	14.76%	100 351
Olive	0.52%	3 535
Sunflower	0.11%	748
HVO palm	98.22%	250 464
HVO shea	1.78%	4 539

Thank you!

Next issue on May 19, 2016

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