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BIOFUELS DEMAND FORECASTS

Issue N° 4
February 23, 2018

2. Europe total



1.0 SUMMARY

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2. Europe total

Warning

All the changes mentioned below have been made based on the integration of new data available and new market comments.

Bear in mind that we built our model to answer, for each country, the following question: what volumes of each kind of biofuels are needed to reach the blending mandate given the infrastructure constraints? We continue to work on the supply side with the medium-term objective to integrate more data about capacity and production in our models.

The volumes displayed in our publication are those shown to national institutions to prove compliance. For example, if an obligated distributor shows tickets of RME, but blend physically SME, that volume will appear in our numbers under RME. That is because it is simply impossible to track exact physical volumes due to the mass balance system. That said, we believe that when numbers are consolidated on a national level, the spread between tickets and physical reality remains small.

The type of our methodology is bottom-up: we work on national models with very specific data and then consolidate the numbers to have the global European picture.

The following comments concern the 30 European countries (as a whole) covered by our forecasts.

Main changes between November and February forecasts: 2017 numbers

- The total Fame demand remained almost the same, up 11 KT.
- The total HVO demand was slightly adjusted up by 17KT.
- The main driver for changes was the integration of new official data from the UK, Portugal, Ireland, Denmark and Norway in our models.
- The widest correction concerned TME (-65 KT), as we adjusted UK and Danish demand down by 25 and 15 KT, respectively.
- Changes made on RME for Norway (- 50 KT) and Denmark (+75 KT) balanced each other with additional minor changes in other countries.
- The new data changed the repartition between VVO and wastes based HVO, since Norway consumed more palm based HVO than expected before.

2018 numbers

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2019 numbers

General considerations

- The total Fame demand was decreased by 67KT.
 - The total HVO demand was adjusted down by 136 KT.
 - As we integrated the fact that more SME (+424 KT) than previously expected would enter the EU market, we adjusted consequently our numbers for RME and PME.
 - The new rules published in Italy had a significant impact on our model, with less PME and TME forecasted.
 - The total TME number was significantly lowered in Italy and on new data from the UK and Ireland suggesting market shares vs UCOME would be lower.
 - The two drivers influencing the decrease of our forecast for total HVO demand are Denmark (palm phase-out officially recorded in 2017) and Sweden (poor Q1 numbers).
-
- The total Fame demand was decreased by 134 KT.
 - The total HVO demand was adjusted down by 161 KT.
 - The new Italian system announced in March cut 200 KT of demand, affecting mainly our HVO number (above the B7 blend wall).
 - Increased of the British and Dutch mandates, which rely strongly on UCOME and TME, are very powerful drivers that cast a shadow over the ability of the market to find new supply of both products.
 - We assume for now that more UCO and UCOME would be imported from overseas while some European producers would switch from PFAD to tallow to increase the total supply.
-
- We increased our forecast for the total SME imports from Argentina from 500 KT previously (assumed conservative) to 1200 KT for 2018, on new evidences that the flow concretised in Q1 and Q2.
 - The fact that the PME flow from Indonesia hasn't materialized doesn't affect our models since we had previously made the assumption that it would impact solely the EU production of PME.
 - We failed short of time to analyse the potential implications of the deal reached at the EU level about RED2. The fact that high ILUC biofuels (under which palm and soybean biofuels would likely fall,) will be cap to the 2019 level may have some impact on blenders decisions. They might want to ensure in 2019 the highest possible market penetration of those products to guarantee a lower cost of compliance for 2020 and subsequent blending obligations.

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MANDATES	2017	2018	2019
Biodiesel (e.c)	7% + 0.7% DC	7% + 0.7% DC	7% + 0.7% DC
Ethanol (e.c)	7.5% (0.6% DC)	7.5% (0.6% DC)	7.5% (0.6% DC)
Advanced biofuels DC (e.c)		?	?
(Kt)			
FUEL MARKET	2017	2018	2019
Diesel fossil road	31 572	31 499	31 318
Diesel fossil non-road	3 150	4 200	4 200
Fame	2 815	2 850	2 837
HVO	258	328	328
Diesel fuels under compliance	37 794	38 878	38 683
Gasoline fossil	6 441	6 635	6 838
Ethanol	664	683	699
Gasoline fuels under compliance	7 105	7 318	7 537
FEEDSTOCK MIX	2017	2018	2019
Fame single counted	2 667	2 696	2 678
RME	2 216	1 907	2 208
PME	247	247	371
SME	185	530	88
Others	18	11	11
Fame double counted	148	155	159
UCOME	113	119	124
TME	35	35	35
Fame advanced	0	0	0
HVO single counted	258	328	328
HVO double counted (regular)	0	0	0
HVO advanced	0	0	0

2017

- The official Customs data are not yet available so our model remained unchanged
- 75% of non-road diesel included in the mandate (explaining the 6% growth of diesel under compliance)
- HVO remains the only way to fill additional needs
- We now forecast that the TME volumes would be frozen to 40 Kcum, UCOME accounting for all the growth on the segment
- The arrival in Spain and ARA of Argentinean SME parcels from September has a clear impact for the French feedstock mix
- Ethanol use grows but blenders continue to pay TGAP on the gasoline mandate

2018

- We increased our forecast for SME penetration to 600 KT, mainly impacting the RME outlet, which should reach a multi-year low confirmed by production cuts in Q1 and Q2
- Announced as imminent several times, the release of the decision about the advanced sub-targets and the list of eligible feedstocks under the DC scheme is still delayed
- It seems that PFAD will not be advanced, nor DC so practical supply of advanced HVO will be very limited
- We cut the advanced targets to 0, therefore

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ASSUMPTIONS	2017	2018	2019
B7/B10 blend wall	2 761	2 841	2 827
E5/E10 blend wall	521	553	570
E10 market share	38%	42%	42%
Diesel fuels growth	6.0%	0.1%	-0.5%
Gasoline fuels growth	4%	3%	3%

BIO SUBSTITUTES SHARES (E.C)	2017	2018	2019
Diesel bio substitutes (VVO)	6.95%	7.01%	7.00%
Diesel bio sub. (regular wastes)	0.69%	0.70%	0.73%
Diesel bio sub. (advanced)	0.00%	0.00%	0.00%
Gasoline bio substitutes (crop)	6.76%	6.75%	6.69%
Gasoline bio sub. (advanced)	0.00%	0.00%	0.00%
Share Crop	6.84%	6.89%	6.87%

decreasing sharply our HVO number compared to the latest update

- The feedstock split of Fame will continue to be impacted by the imports of SME from Argentina

2019

- Depending on the outcome of the DC and advanced topics, 2019 could be the first year without any supportive driver for growth
- We revised down our assumption for diesel growth, which is likely to turn negative in the coming years
- SME use should be cut on EU Commission's action by the end of 2018, to be replaced by RME, PME and HVO
- Our previous assumption that locally produced HVO would take market shares to RME was dismissed by local sources. We corrected our number and froze it to the 2018 level, as no driver for growth will support the demand in France

2. Europe total

*Thank you!
The next issue will be released
in January 2019.*

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