BIODIESEL MARKET REPORT

Issue N° 257 | September 6, 2018

SQUARECO

Market Status

As of September 6, 2018
EUR/USD 1,162

BIODIESEL QUOTES				
PREMIUMS	**USD/MT**	**(Δ)**	**INCENTIVES**	**USD/MT**
FAME 0° vs ICE Gasoil	300	-20	DC UCOME vs FAME 0°	70
RME vs ICE Gasoil	185	20	Germany high GHG	-23
UCOME EU vs ICE Gasoil	300	0	Italy premium DC	30

				REPLACEMENT COSTS	
FOB ARA T2, RED	**USD/MT**	**(Δ)**	**EUR/CUM**	**USD/MT**	**(VS SPOT)**
FAME 0°	870	-20	661	817	-53
RME	985	20	748	933	-52
SME	870	-20	661	936	66
PME	835	-20	635	701	-134
UCOME EU	985	0	748	891	-94
TME cat. 1	930	0	707	691	-239

FOB ORIGIN, RED	**USD/MT**	**(Δ)**	**EUR/MT**	**2016 RINS**	**CTS/RIN**
SME Argentina	640	0	551	D4	42
PME Indonesia	660	10	568	D5	38
				D6	21

FEEDSTOCKS QUOTES					
FEEDSTOCKS DDP NWE	**USD/MT**	**(Δ)**	**EUR/MT**	**SPREADS**	**USD/MT**
Rape oil	860	10	740	ROGO	102
Soy oil	790	15	680	BOGO	-67
Palm oil	575	15	495	POGO	-130
UCO EU	715	5	615	UCOGO	27
Tallow cat. 1	545	0	469	TALGO	-143
FFA 60%	550	15	473		
Methanol EX-W NWE	475	0	409		

GLYCERINE	**USD/MT**	**(Δ)**	**EUR/MT**
Crude EX-W NWE	410	0	353
Refined EX-W NWE	670	0	577
Crude FOB ARGENTINA	180	0	155
Refined FOB ARGENTINA	530	0	456

OTHER FUELS	**USD/MT**	**(Δ)**	**EUR/MT**
Diesel 10 ppm FOB NWE	676	6	582
Gasoline FOB NWE	735	0	633
Ethanol anhydrous FOB ARA	715	-10	615

FUTURES	**USD/MT**	**(Δ)**	**EUR/MT**
ICE Gasoil	688	4	592
CBOT Soy oil	621	3	534
BMD CPO	558	18	480
Euronext Rapeseed	436	2	375

Editorial & News

The revision of Argentinean DETs system moved discretionary opportunities away

The SME Fob Argentina market was reported on hold this week after the government announced new export taxes on soybean products. Briefly explained, export taxes on soybeans, soy oil and soy meal have been decreased to 18%, while the export tax imposed on SME has been left unchanged at 15%. However, an additional tax expressed in pesos has been added to soybeans (4 pesos for every dollar exported) and soy meal/oil/SME (3 pesos for every dollar exported). The government de facto abandoned the Differential Export Tax (DETs) between beans and oil/meal, while the DET between soy oil and SME was lowered from 8% to 3%. It also added complexity and uncertainty with this additional tax expressed in pesos, meant to link the two currencies in a bid to slow down the devaluation. The Argentinean pesos has lost about 50% of its value against USD since the beginning of the year, pushing the public debt cost to the roof. After the announcement, local sources said SME offers could not be found any longer, as operators needed time to evaluate the consequences of the new tax structure. The direct consequence on the international biodiesel market was to close temporarily arbitrage opportunities for discretionary blending in Africa. However, with a BOGO still trading at or below USD - 65/mt, local operators are confident that more volumes will be sold soon when SME exporters will receive guarantees about the tax system. The other question pending is to know if the reduction of the DET influence the EU Commission's decision about the imposition of temporary countervailing duties? Although the period investigated (2017) is not concerned about the latest Argentinean move, it might have a political impact.

EU countervailing
Indications about duties next week?

Sources in Brussels said there was no indication from the EU Commission about the chances to see temporary countervailing duties imposed by the end of October. Although the institution is the only one to decide on that matter, it will have to eventually communicate its decision to Member States. That could possibly happen next week during the Trade Defence Instrument meeting on September 11.

Greenergy
UCO collector in Singapore

The fuel producer, n°1 importer of UCO in the UK, announced this week its acquisition of the 100% of the shares of Rexon Energy, a UCO exporter based in Singapore. Its Chief Executive commented that "we have increased our purchasing of used cooking oils from around the world over a number of years and Rexon has become a significant supplier. Our acquisition of Rexon provides greater integration in this part of our supply chain."

German demand
Up 125KT in 1H-18

BAFA data covering June confirmed the good health of the biodiesel demand in the first half of the year. With a total of 1.16 million mt absorbed by German blenders, the demand for Fame/HVO rebounded by a solid 12%. The growth rate in Q1 (14%) has, however, been stronger than in Q2 (10%), with an average blending ratio close to 6.1% vol. The ethanol segment also experienced a positive business environment with 49 KT more consumed than during 1H-17.

EU Commission
Plan to create a single forum for biofuels

The initiative intends to expand and replace the ART-Fuels Forum (AFF) work, which currently counts 100 stakeholders from the low carbon fuels industry. The AFF II forum will cover alternative, renewable liquid and gaseous fuel sectors, as well as other low carbon fuels including many technologies. According to the contract notice released by DG Energy, the main goal of the action will be to "create a constructive dialogue among stakeholders operating in the sector with the aim to tackle policy issues and market barriers currently hampering the development, the financing and the market penetration of the alternative fuels".

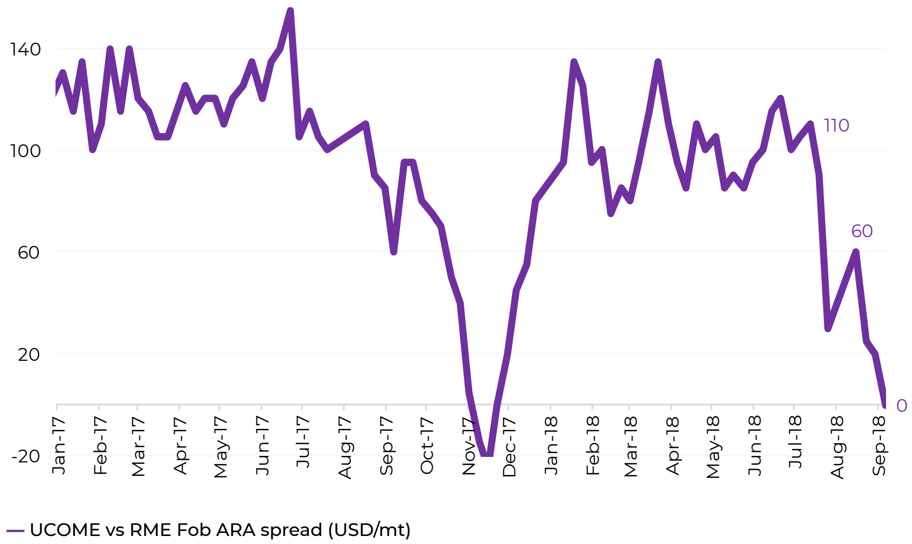
Shipping
Latest fixtures reported

FAME	
5'000 mt Rotterdam/Fawley	(29-30/08)
7'500 mt Antwerp/Stanlow	(31/08-03/09)
7'000 mt Huelva/Constanza	(01-02/09)
5'500 mt Huelva/Fos	(27-28/08)
10'000 mt Castellon/Rotterdam	(28-29/08)
4'500 mt Dordrecht/Thames	(28-30/08)
7'000 mt Tees+Immingham/Thames	(01-02/09)

Charts

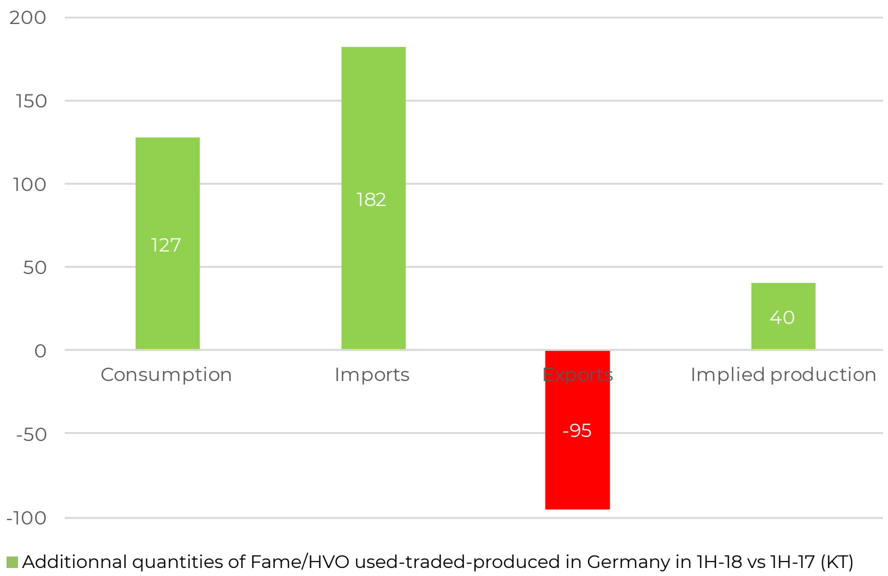
UCOME priced at parity with RME

Although medium-term bullishness of the waste complex is on everybody's lips, the reality of the spot market is that RME is outperforming UCOME. The episode of 2017 is likely to repeat: in the coming weeks, the spread between the two qualities is likely to widen again. The question is thanks to UCOME up or RME down?



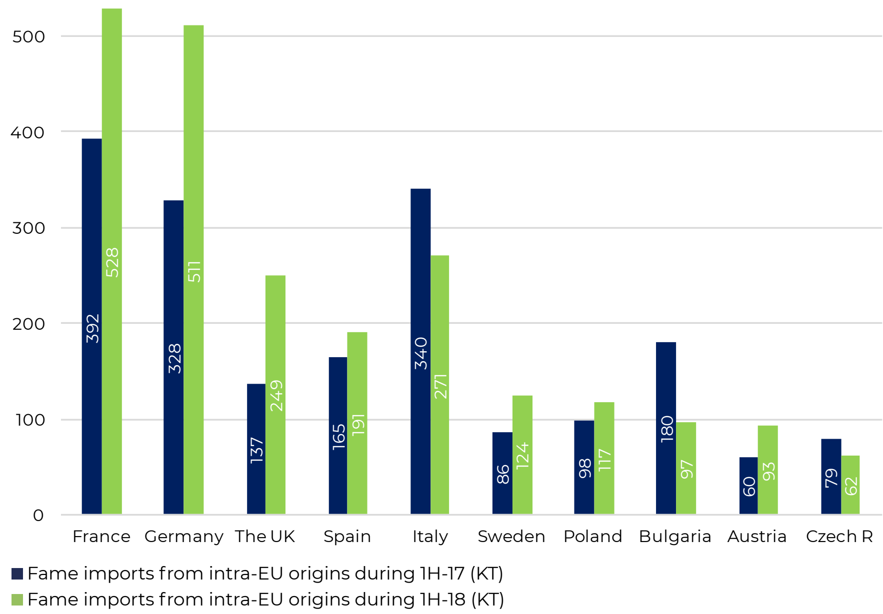
German demand covered by imports

We mentioned in this issue both the healthy level of Fame/HVO demand and the fast-growing imports during the first half of the year. We show here that German producers managed to take advantage of this good business environment only at a limited extent, imports covering much of the growth.



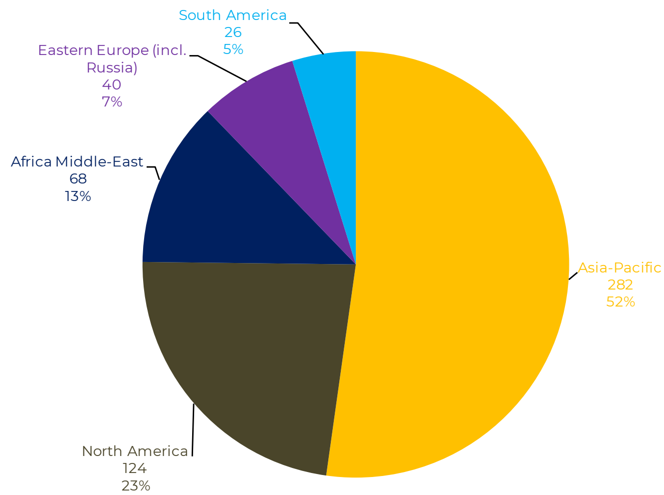
France and Germany stimulated intra-trade

Eurostat data highlighted a strong growth of Fame imports during the first half of the year, especially marked for France, Germany and the UK. This is the direct consequence of the SME/PME imports through the ARA and Med hubs but also of the healthy demand reported in Germany and the UK.



1 UCO barrel over 2 is imported from Asia

Figures supplied by Eurostat under 15180095-99 codes confirmed the solid trend of UCO imports from China (142 KT), Malaysia and Indonesia (47 KT each). Once reported under another code, Chinese UCO imports are now more transparent.



Origins of the extra-EU UCO imports during 1H-18 (KT, % of total UCO imports (540))

Regulatory

Portugal

Intense debate about 2019-2020 mandates

Local sources confirmed biofuels operators were currently discussing with various ministries about the 2019 mandate. In parallel, a decree was published last week to modify (again) the allocations of the biofuels responsibilities among three different agencies.

The Decreto-Lei fixing the biofuels mandate until 2020 initially planned to increase the blending obligation to 10% e.c before 2020. However, it is still frozen at 7.5% e.c, with several stakeholders trying to keep it unchanged in 2019. Sources reported that several meetings between the government and the main players (biofuels producers and fuel distributors) are being held to find an agreement before year-end. The only consensus is that the obligation should be of maximum 9% e.c but it remains unsure at what level between 7.5 and 9% e.c it will be set in 2019 and 2020.

Local operators complained about the content of the Decreto-Lei n° 69/2018 published on August 27 and intended to “restructure the National Entity for the Fuel Market (ENMC)” and other agencies. Since January 1, 2018, the supervision of biofuels certificates had been handled by the National Energy and Geology Laboratory (LNEG) in replacement of the ENMC. The new decree modifies further this attribution and splits the responsibilities among three agencies:

- ERSE will supervise/monitor the biofuels market and its regulation
- LNEG will be responsible for verifying sustainability criteria in biofuels production
- DGEG will assume the competences of ENMC regarding biofuels production

This change will force operators to work with new teams and report different sets of information to three distinct Agencies. That is not to please any of the biofuels producers or obligated distributors under the biofuels law.

Poland

Trade collapse suggests end of loophole

Our analysis of Eurostat trade and national production data highlights a sharp decrease of the Fame trade surplus, suggesting the "double-certificate" loophole has clearly lost momentum.

Addressed by the biofuels law published last year, the loophole that allows Polish operators to count a Fame parcel under the mandate before exporting it, seems to be history. Reported above 100 KT between Q4-15 and Q1-17, the quarterly trade surplus (exports-imports) has collapsed to just 4 KT in Q2-18.

We estimate the real local consumption of Fame by assuming it is equal to the official output minus the trade surplus. The result of our model clearly shows that the real consumption hit a low in 2016 at only 313 KT before it started to rebound from Q2-17. In 2017, we estimate that it was of 612 KT. Based on our estimations for Q1 (117 KT presumably consumed) and Q2 (215KT, multi-year high), we believe the 2018 real consumption number will end up close to 650 KT. That would correspond to the highest level since 2013.

Polish exports have been recorded at only 59 KT in Q2-18, the lowest figure since Q1-15, when the loophole presumably started. Trade flows to Bulgaria (13 KT), the Netherlands (7 KT) and France (0 KT) have collapsed compared to the previous quarters. Only historical destinations like Germany (13 KT) and the Czech Republic (14 KT) have been stable.

Although the numbers can't disclose everything about the actual existence of the loophole, it is clear that less Fame exits Poland, while imports and output remain.

Statistics

EU

Intra-trade dynamic in 1H-18

Eurostat figures covering the first six months of the year confirmed the good business environment in Europe, especially for big markets like France, Germany and the UK. The three outlets posted impressive growth rates for their imports, comprised between 35 and 82%.

FAME DELIVERIES TO THE MAIN EU OUTLETS (KT)	1H-17	1H-18	Growth
France	392	528	35%
Germany	328	511	56%
The UK	137	249	82%
Spain	165	191	16%
Italy	340	271	-20%
Sweden	86	124	44%
Poland	98	117	19%
Bulgaria	180	97	-46%
Austria	60	93	55%
Czech R	79	62	-22%

The total quantity of Fame exchanged within the EU boundaries increased by 5% during Jan-Jun. Our analysis highlighted the following main developments:

- France remained the n°1 outlet in Europe with 528 KT imported, up 35% compared to the same period last year. The product came mainly from ARA (299 KT) and Spain (149 KT). It's worth noting that Portugal became an important supplier with 21 KT delivered.

- Confirming the good demand numbers and a strong market feeling, German imports jumped by a solid 55% to 511 KT. The ARA hub supplied 370 KT, or 72% of the total, followed by the UK (55 KT), Austria (43 KT) and Poland (23 KT).

- Without surprise, the fastest growing outlet during the period was the UK. With 249 KT received, British imports jumped by 82%. Most (203 KT) came from the Netherlands.

- Spanish (191 KT, + 16%) and Italian (271 KT, -20%) imports were contrasted, in line with the evolution of their respective mandates.

- The data reveals that the quantities delivered from ARA (Netherlands + Belgium) were significantly up, highlighting an intense activity in the main European hub. Together, the two origins exported 1.48 million mt of Fame, up 38% from 1.07 million mt in Jan-Jun 2017.

- During the six months preceding the introduction of the GHG mandate, Sweden relied significantly on the Union to supply increased Fame quantities (124 KT, + 45%).

- Thanks to a fixed regulation, business to Slovenia noticeably resumed. Imports surged by 194% to 32 KT.

- Other growing outlets triggering demand were Poland (117 KT, + 19%), Austria (92 KT, + 56%), Denmark (45 KT, +19%), Hungary (30 KT, + 38%) and Greece (24 KT, +46%).

- On the downside, the activity slowed down in Bulgaria (97 KT, - 46%), the Czech Republic (62 KT, -21%), Ireland (37 KT, -24%) and Slovakia (45 KT, -41%).

EU

540 KT of UCO imported in 1H-18

The latest BAFA numbers for May confirm the negative trend: The thin growth accumulated in the first four months of the year has been fully washed out that month. Figures confirmed the sensation of weakness felt by the market in Q2.

UCO DELIVERIES TO THE EU, PER ORIGIN, IN 1H-18 (KT)

	1H-17	1H-18	Growth rate
EU-28 Total	413	540	31%
China	9	142	1480%
US	127	118	-7%
Malaysia	21	48	128%
Indonesia	21	47	125%
Saudi Arabia	37	34	-7%
Russia	11	20	83%
Japan	18	20	11%
UAE	12	12	-3%
Belarus	9	11	26%
Australia	5	10	107%

The total quantity of used cooking oil reported under the codes 15180095 (now used by China) and15180099 (mainly used by Indonesia) reached 540 KT in the first half of the year. Although it corresponds to an increase of 31% compared to the same period last year (412 KT), all of it can be explained by the Chinese flow, newly reported under this code. According to market sources, Chinese traders used to export UCO under another code to avoid export taxes. Consequently, China became the first origin reported under Eurostat data, with 142 KT delivered during 1H-18. The historical leader, the US, came second with 118 KT sent to the Union. That is 7% down from the 127 KT recorded in 1H-17.

Often mentioned in the market as new significant sources of UCO supply, Indonesia (47 KT, 123%) and Malaysia (48 KT, +128%) have both more than doubled their deliveries compared to last year. Together, they became the third largest supplier to the EU. This Asian supply is reinforced by the growth or consolidation of other origins including Japan (20 KT, + 11%), Australia (10 KT, + 100%), Taiwan (10 KT, - 44%), Hong-Kong (6 KT), Vietnam (5 KT), Singapore (84 KT) and Thailand (3 KT).

Suppliers from the Middle East including Saudi Arabia (34 KT, -8%), UAE (12 KT, flat), Egypt (4 KT), Lebanon (4 KT) and Koweit (4 KT) remained together an appreciated source of supply. Russia (20 KT, + 100%) and Belarus (11 KT, + 22%) increased their deliveries, while South Africa (9 KT) and Switzerland (7 KT) maintained their delivery pace. So did South America with Chile (10 KT), Argentina (8 KT) and Colombia (5 KT).

Thank you!
Next issue on September 13, 2018

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