BIODIESEL MARKET REPORT

Issue N° 264 | October 25, 2018

SQUARECO

Market Status

As of October 24, 2018
EUR/USD 1,139

BIODIESEL QUOTES				
PREMIUMS	**USD/MT**	**(Δ)**	**INCENTIVES**	**USD/MT**
FAME 0° vs ICE Gasoil	200	20	DC UCOME vs FAME 0°	130
RME vs ICE Gasoil	530	60	Germany high GHG	30
UCOME EU vs ICE Gasoil	270	5	Italy premium DC	40

				REPLACEMENT COSTS	
FOB ARA T2, RED	**USD/MT**	**(Δ)**	**EUR/CUM**	**USD/MT**	**(VS SPOT)**
FAME 0°	900	10	698	795	-105
RME	1 230	50	954	940	-290
SME	920	10	713	925	5
PME	840	50	651	650	-190
UCOME EU	970	-5	752	870	-100
TME cat. 1	920	10	713	610	-310

FOB ORIGIN, RED	**USD/MT**	**(Δ)**	**EUR/MT**	**2016 RINS**	**CTS/RIN**
SME Argentina	670	-10	588	D4	32
PME Indonesia	640	-15	562	D5	30
				D6	8

FEEDSTOCKS QUOTES					
FEEDSTOCKS DDP NWE	**USD/MT**	**(Δ)**	**EUR/MT**	**SPREADS**	**USD/MT**
Rape oil	880	-5	773	ROGO	180
Soy oil	795	-5	698	BOGO	-70
Palm oil	540	-5	474	POGO	-164
UCO EU	710	-10	623	UCOGO	10
Tallow cat. 1	480	-5	421	TALGO	-220
FFA 60%	550	-20	483		
Methanol EX-W NWE	490	-5	430		

GLYCERINE	**USD/MT**	**(Δ)**	**EUR/MT**
Crude EX-W NWE	270	-30	237
Refined EX-W NWE	700	-10	615
Crude FOB ARGENTINA	150	-10	132
Refined FOB ARGENTINA	530	-20	465

OTHER FUELS	**USD/MT**	**(Δ)**	**EUR/MT**
Diesel 10 ppm FOB NWE	690	-11	606
Gasoline FOB NWE	700	-5	615
Ethanol anhydrous FOB ARA	700	10	615

FUTURES	**USD/MT**	**(Δ)**	**EUR/MT**
ICE Gasoil	700	-11	615
CBOT Soy oil	630	-21	553
BMD CPO	536	-22	471
Euronext Rapeseed	424	-1	372

Editorial & News

Anti-dumping investigation is off

At the end of last week, the EU Commission published the regulation 2018/1570 terminating the proceedings concerning imports of biodiesel from Argentina and Indonesia and repealing the regulation 1194/2013 that imposed anti-dumping duties. The EU government concluded that investigation should be terminated for two main reasons: (1) dumping margins from Indonesia are in fact very low to negative and (2) it cannot be established that there is a substantial causal relationship between the dumped imports from Argentina and the material injury suffered by the Union industry. As no anti-subsidy investigation has been opened against Indonesia, PME imports will remain in the coming years free of any special duties. Countervailing duties may still apply to SME from Argentina from February 2019 if the EU Commission succeeded to establish that the Differential Tax Export (DET) system constitutes an unfair subsidy that discriminates EU producers. With the disavowal of the AD investigation, the EU Commission will have to seriously back its argumentation if it is to avoid the same scenario. A task that appears now trickier than ever.

Portugal mandate
Decrease drafted

Local sources confirmed that the Portuguese government drafted a decrease of the biofuels obligation from 7.5% to 7% e.c in its proposal for the 2019 budget. In the initial biofuels law, it had to go up from 9% in 2018 to 10% e.c in 2019. Although the draft budget will be still be discussed, sources said any change to this feature was not very likely. This u-turn raises the question of the RED compliance in 2020 and the willingness of certain Member States to really comply under the 10% e.c target for transport.

Brazilian rush
New investment announced

Brazilian media reported at the end of last week that Amaggi, the largest grain trading company in the country, finally decided to enter the biodiesel market. The company said it would invest BRL 75 million next year to build a biodiesel plant at its crushing site in Lucas do Rio Verde (Mato Grosso). Its President said Amaggi considered entering the market before but now was the best time, especially after expanding the existing unit's crushing capacity.

Palm ban in France
Amendment withdrawn

As we anticipated, the amendment to the 2019 budget (Loi de Finance) filed earlier this month was dismissed by the government during the debate at the lower chamber of the Parliament. This move once again confirmed the current impossibility for a nation's executives to discriminate against palm oil, as too many interests are at stake. Media and NGOs commented that "tax breaks granted to palm oil" would be maintained; in reality, palm-based biofuels are not incentivized directly through tax breaks. They are just eligible to be used under the mandates and help fuel distributors to avoid paying penalties under the form of taxes.

Germany, like other MS
2020 will be physical

As is the case in several other Member States (including the UK), Germany wants to make it clear that fuel distributors obligated under the GHG mandate won't be able to use their surplus of tickets from the previous year in 2020. That year, Germany must prove to the EU Commission that it physically reached both the RED (10% e.c renewable in transport) and the FQD (6% GHG reduction of fuels vs 94.1 gCO2eq/MJ baseline) targets. In this spirit, the government just drafted an ordinance to amend the 38. BlmSchV law.

Shipping
Latest fixtures reported

FAME	
6'000 mt Ravenna/Barcelona	(12-15/10)
20'000 mt Antwerp/Sete+Castellon	(02-05/10)
5'700 mt Rotterdam/Port Jerome	(16-17/10)
4'000 mt Sete/Genoa	(02-02/11)
5'000 mt Antwerp/Huelva+Falconara	(28-29/10)
3'000 mt Rotterdam/Immingham	(16-17/10)
4'400 mt Rotterdam/Pembroke	(14-15/10)
2'800 mt Antwerp/Le Havre	(17-18/10)
10'000 mt Constanza/Rotterdam	(13-14/10)
11'000 mt Huelva/Fos	(19-20/10)
8'000 mt Huelva/Rotterdam	(21-22/10)
6'000 mt Bilbao/Rotterdam	(15-20/10)
4'500 mt Flushing/La Pallice	(20-22/10)
10'000 mt Antwerp/Genoa +Monopoli	(06-07/10)

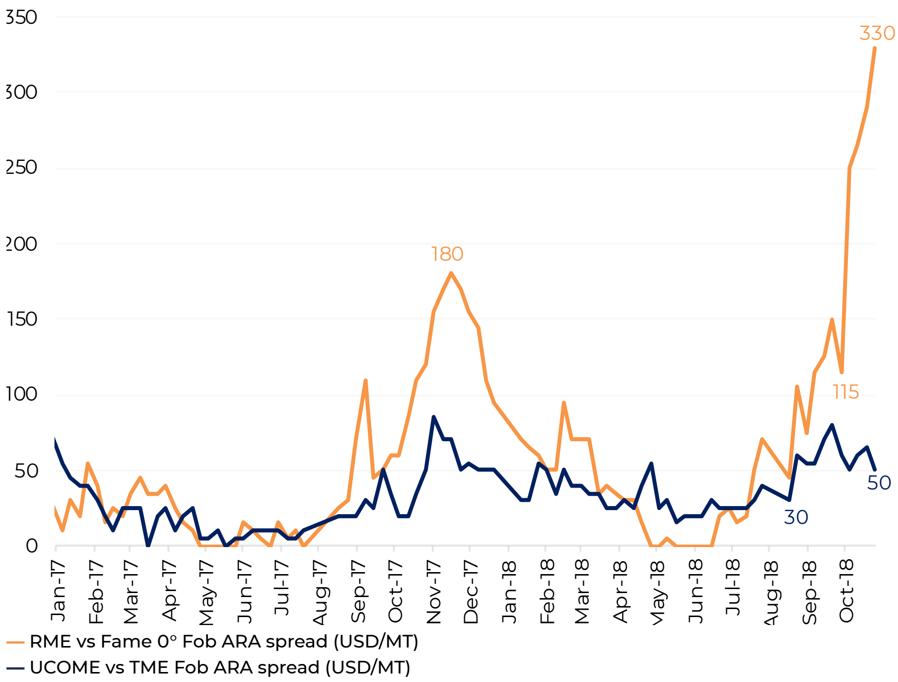
UCOME	
4'500 mt Valencia/Rotterdam	(24-26/10)

POME/SBE	
1'800 mt Pasir Gudang/Rotterdam	(01-10/11)

Charts

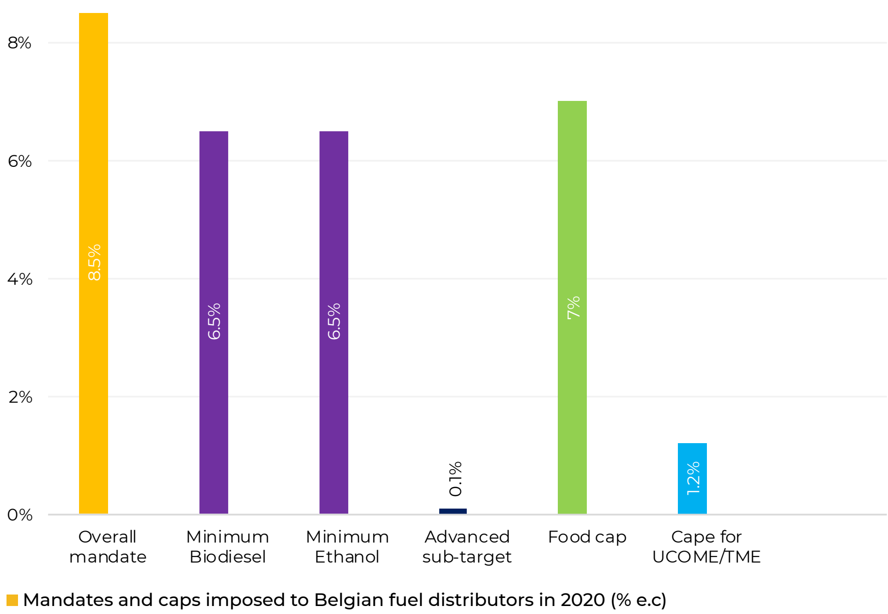
The value of CFPP is a relative concept

Often used by market players within contract negotiations, the theoritical value of one degree of CFPP calculated out of the RME vs Fame 0° can't explain the UCOME vs TME spread, which has its own dynamics. At the moment, one CFPP point would have a value of USD 27/mt but TME is demanded enough to avoid the same discount.



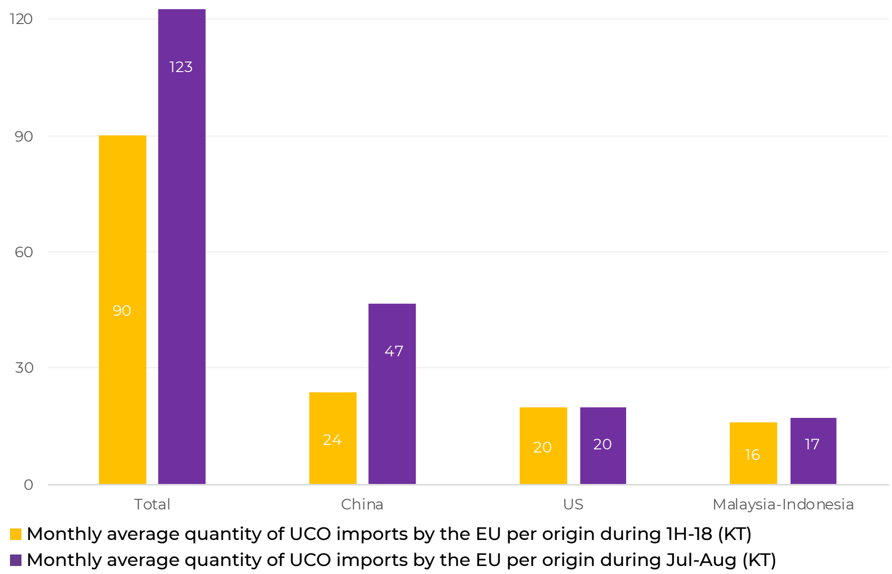
2020 Belgian mandate tricky to reach

The law introducing a new mandate structure in Belgium by 2020 will be complex to reach without more advanced than the target or single counted UCO/tallow-based HVO. We anticipate a market of 50 KT of DC UCOME/TME and at least 80 to 100 KT of HVO to allow obligated parties to reach their targets.



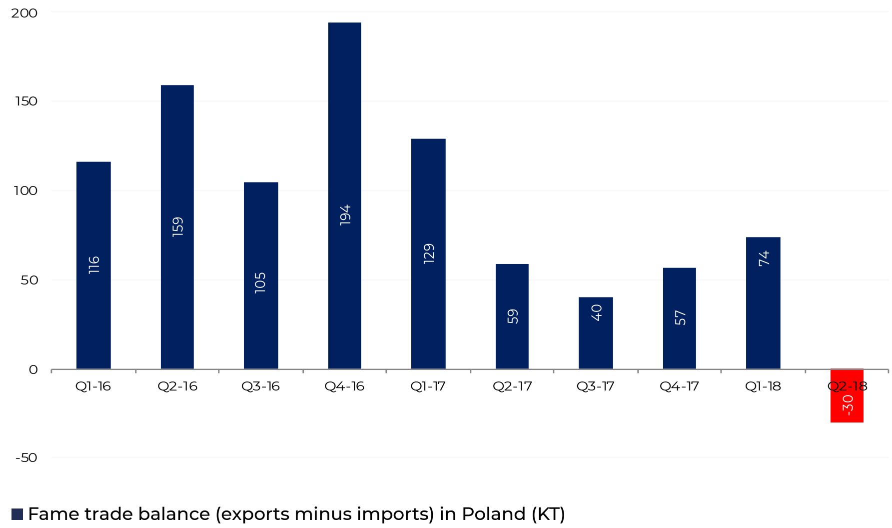
EU UCO imports above 120 KT per month

Our latest analysis of Eurostat data for July and August confirmed the market sentiment that UCO imports, especially from China and Asia, gained momentum. A total of 245 KT was brought in during Jul-Aug, confirming the recent increase of the pace, also due to season factors. China is clearly leading the pack of suppliers.



Polish trade balance turned negative

For the time in several years, Poland has imported more Fame than it has exported. That was achieved through both the reduction of exports and the increase of imports. We believe this is confirming that more physical blending really occurs at the moment.



Regulatory

Belgium

8.5% e.c in 2020 confirmed

The government has published last summer a decree partially transposing the ILUC directive and setting up a reform of the blending mandates for 2020. For the first time, an overall target expressed in energy content will be imposed on fuel distributors. Our model for Belgian compliance shows they will have to use DC Fame and at least 100 Kcum of HVO to (hopefully) reach their obligation.

Belgian obligated parties will have more flexibility in 2020 to reach their blending obligations than currently (6% vol. on biodiesel, 8.5% vol. on ethanol). They will have to fulfil one overall target of 8.5% e.c, assorted by a minimum of 6.5% e.c for each of the segments (gasoline and diesel) and a 0.1% e.c advanced sub-target. At the same time, they will have to respect a 7% e.c cap for crop based-biofuels and a 0.6% physical cap for double counted (non-advanced) biofuels.

In our model for 2020 compliance, we assumed that all gasoline sold would be E10 and all waste-based biofuels (including advanced) would be under the Fame form. Because of the poor energy content of ethanol, the generalization of E10 is just enough to reach the minimum of 6.5% e.c imposed on the segment (6.73% e.c in our model). Consequently, most of the growth to reach 2020 targets will be supplied by biodiesel. The 0.6% e.c physical cap will translate into a demand for UCOME/TME of 67 Kcum, while 6 Kcum of POME ME will be enough to cover the 0.1% e.c advanced sub-target. The rest of the B7 blend wall (590 Kcum at total) will be covered by RME/PME (510 Kcum, + 20 Kcum only vs 2017). Because of the 7% e.c, the maximum volume of crop-based HVO will be of 100 Kcum. Our model shows that with all the constraints imposed by the new law, obligated parties will struggle to reach 8.2-8.2% e.c of overall compliance. Because of the various caps and blend wall, the remaining 0.2-0.3% e.c up to 8.5% e.c should be either DC advanced HVO or single counted UCO/tallow HVO.

Canada

New timelines for GHG mandate

The drafting of the Clean Fuel Standard will be delayed compared to the initial schedule (proposal end of 2018, final regulation mid-2019). Environment and Climate Change Canada (ECCC), in charge of the new policy, recognized "the need for additional time to work with interested parties to conduct robust technical and economic analysis." Woefully, the requirements for liquid fuels will enter into force only in 2022.

Unlike California, the promising outlet of Canada will not materialize anytime soon, as the ECCC finally choose a very cautious stance. The steps of the regulatory design will be as follows:

- By the end of 2018, it will release a regulatory design paper that will provide more information about the design of the policy, including the proposed allocation of the overall 30-million-ton target by 2030 among the three fuel streams (liquid, gaseous and solid fuels).
- In Q2 or Q3 2019, proposed regulations for the liquid fuel stream of the Clean Fuel Standard will be published in Canada Gazette, Part I, including the draft models for the lifecycle assessment and GHG values for each fuel.
- Sometimes in 2020, final regulations for the liquid fuel stream of the Clean Fuel Standard shall be published in the Canada Gazette, Part II.
- First GHG reduction mandate to be in force in the 2022 calendar year, significantly behind the initially suggested schedule of 2020.

US

RFS is being fixed

After the announcements of President Trump, the EPA published the agenda of the proposed rulemaking for three main changes: E15 year-round, Renewable Volume Obligation (RVO) for 2019, and a RFS "reset." In this regard, the EPA will exceptionally propose volumes forward covering the 2020-2022 period.

The EPA released three official documents to announce the timelines of expected changes, confirming the strong political will to fix several issues of the biofuels program. The institution announced it would issue by February 2019 the draft of the regulation allowing E15 to enjoy the same Reid Vapor Pressure (RVP) exemption as E10 during the summer. The final rule should be published in May, in time to make E15 available at the pump during the summer of 2019.

In a second release, the EPA confirmed it would respect the deadline of November 30 for the finalization of the 2019 overall and the 2020 Biomass Based Biodiesel volume requirements under the RFS. Finally, and most importantly, the Agency announced it is "required to modify, or reset, the applicable annual volume targets specified in the statute for future years if waivers of those volumes in past years met certain specified thresholds." As this will soon be the case, the EPA proposes a rulemaking that will modify the volume targets for cellulosic, advanced and total renewable fuels for the years 2020-2022. By fixing the waiver issue, the Agency will also provide a unique transparency about the expected volume requirements.

Statistics

EU

UCO imports pace speeding up

Our analysis of the latest Eurostat data available, covering the Jan-Aug period, highlighted an acceleration of the monthly pace. In July and August, the EU imported about 120 KT per month. Most of the growth is currently fuelled by Asian origins.

EU UCO IMPORTS DURING JULY AND AUGUST 2018 (MT)

	Jul	Aug	TOTAL	Share vs total
Total extra-EU	119	126	245	100%
China	41	52	93	38%
US	19	21	40	16%
Malaysia	13	7	20	8%
Indonesia	9	5	14	6%
Saudi Arabia	4	7	11	4%
Japan	5	5	10	4%
Russia	4	4	9	3%
Taiwan	2	3	5	2%

After a very strong 1H-18 (see BMR n°257), imports of used cooking oil under the 15180095/99 codes sustained their growth into July (119 KT, + 37%) and August (126 KT, + 31%). More than 60% of the total supply originated from Asia. China accounted for 38% of the total during the period, with a big 93 KT delivered over the two months. Because some UCO exports to the EU are still reportedly performed under other codes, it is difficult to assess the total quantity of Chinese UCO hitting the Union. One thing is sure: it's growing fast. During Jan-Aug, at least 235 KT were reported by Eurostat under the two codes. Market sources in Asia very familiar with the trade said the flow would be of at least 500 KT in 2018. We believe that estimation does not include UCOME direct exports. Some market players complained that it is currently difficult to find spot volumes Fob China. That it is also because the trade is more organised with forward quantities booked by a growing number of competitors.

The US remained the second supplier to the EU with an average of 20 KT per month delivered, which is about the same pace as during the past years. Although American UCO is more in demand by the Californian market, exporters still find a way to maintain the level of supply to the EU. That might not last in the coming years. Behind the US, the significant origins are Malaysia (20 KT delivered in Jan-Aug), Indonesia (14), Saudi Arabia (11), Japan (10), Russia (9) and Taiwan (5). South America is clearly the most under-tapped origin compared to its potential. When the prices will increase in the coming years, we believe it will grow on the map as Asia is growing now.

Poland

UCOME used under DC scheme

The latest publication from the National Center for Agriculture (KOWR) covering Q2 confirmed that UCOME and TME cat.2 quantities were produced and used locally. The institution clearly notes that these biofuels "entitle its holder to double the completion of the National Biofuels Obligation (NCW)". This suggests that the DC scheme is already in place, despite the biofuels law published last year mentioned a kick-off in 2019 only.

OFFICIAL NUMBERS FOR BIODIESEL SALES IN POLAND

(KT)	Fame SC	Fame DC
Q1-17	206	0
Q2-17	229	0
Q3-17	240	0
Q4-17	225	0
Q1-18	193	1.4
Q2-18	226	3

KOWR figure for total Fame sales to the Polish market in Q2 was reported at 229 KT. Part of it was 3 KT of waste based material, constituted of 2.2 KT of UCOME and 0.8 KT of TME cat.2 produced locally. Although the quantities might look small, they signal an important switch in obligated parties' strategy, so far exclusively focused on single count (RME at 99%). We could not double check with local sources if the Ministry had finally allowed the double counting of UCOME and TME this year already under the NCW; but the set of data leaves few doubts about this new alternative.

Interestingly, small quantities (0.5 KT) of ethanol made out of food waste were also reported as eligible for being double counted. Clearly, the operators are in a phase of test that will lead to the growth of the DC segment in Poland. The data show that no imports of UCOME and TME occurred yet, but that might evolve in the future. Importantly, the development of the segment in Poland will have small but growing repercussions on the feedstock EU balance. Since last year, it looks like the authorities have handled the issue of frauds, bringing more confidence into the biofuels system. Our analysis of the production and trade data clearly shows that the physical market in Poland has been recently more in phase with the mandated quantities. In Q2, we put the physical consumption of Fame close to 250 KT.

Thank you!
Next issue on November 1, 2018

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