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SME and PME expected to retain dominant position on EU biodiesel market in spite of looming AD-duties

Stratas Advisors

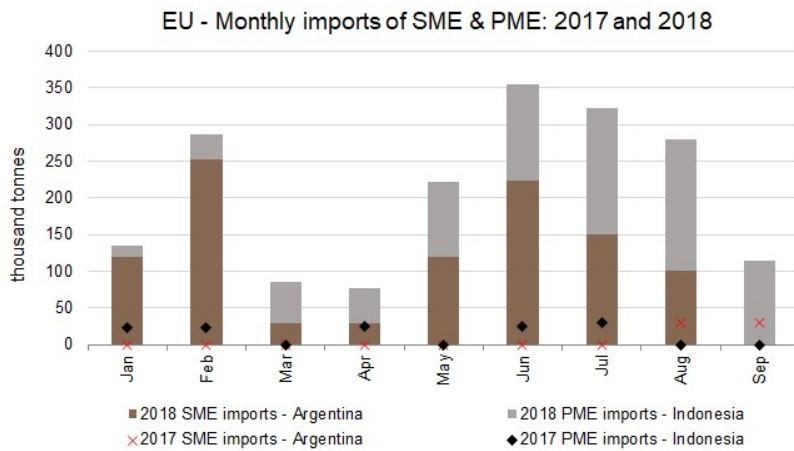
Since the EU started to register SME imports from Argentina in May, imports have been on the rise. According to Stratas' data, 150 thousand tonnes of Argentinean SME were exported to the EU in July, compared to 223 thousand tonnes in June. With the EU's average monthly biodiesel consumption at 1,150 thousand tonnes, Argentine SME imports equaled almost 20% of total biodiesel consumption in June. As RME's premium to FAME 0 is on the rise due to a poor rapeseed harvest outlook, the EU's RME industry is under increased pressure. The pressure could be relieved in October when the Commission announces its decision on whether or not it will impose AD-duties on Argentinean SME exports. However, industry sources expect the Commission to increase AD-duties on Argentinian SME imports by \$60 per tonne, which does not seem enough to effectively bar SME imports from entering the EU market.

Due to current warm temperatures in Europe, harvest forecasts are being adjusted downwards. The most recent outlook for the EU's rapeseed harvest predicted the total rapeseed production to reach 19.95 million tonnes, down from 22.2 million tonnes estimated in May. Although there are still surpluses accumulated in 2017/2018, prices are expected to move upwards as rapeseed supplies tighten. European RME producers have already gone through difficult times since the European Commission partly lifted tariffs on Argentinian SME and Indonesian PME imports. The resulting inflow of cheap SME and PME have caused many major producers to cut their output. For example, German biodiesel producer Natural Energy West decided in April to cut its production by 50%, to 120 thousand tonnes. In addition, ADM announced in April to temporarily cease production at its 275 thousand tonnes biodiesel production facility in Mainz, Germany.

However, other market factors have improved over the last few months, with high oil prices and increased demand as main drivers. Recent numbers showed that Germany, Europe's second-biggest biodiesel market, saw a 12.9% increase in biodiesel demand. Total biodiesel demand in Germany could reach 946 thousand tonnes in 2018. This shows a break in the trend that saw German biodiesel demand decline since the country switched to a new biofuels policy based on GHG reduction targets rather than specified blending targets. Biodiesel blending increased by a full percentage point compared to May 2017. Furthermore, the recent increase in oil prices has lowered the spread between biodiesel and ULSD, making it a more attractive alternative. Finally, Argentinian SME exporters are increasingly blending animal fats into their SME exports in order to give their product better GHG-savings under EU methodology. This strategy makes their product more appealing to the German biodiesel market.

June imports of SME reached 223 thousand tonnes whereas 150 thousand tonnes are foreseen to reach Europe in August. Although no SME imports are currently registered for September, 115 thousand tonnes of PME are expected to flow into the EU biodiesel market. These PME imports are likely to drop during the European winter months as blenders switch to RME due to its superior performance in cold temperatures. Wilmar and Ciliandra Perkasa are most likely to benefit from

the current situation, as these companies are exempted from paying AD-duties on their PME exports to the EU, in contrast to Musim Mas. The graph displayed below illustrates just how sizeable SME and PME imports are in 2018 compared to 2017.



In the background of all these increased imports, the European Commission is still investigating a complaint lodged by the European Biodiesel Board (EBB) against Argentinian biodiesel exporters. The investigation was announced on 31 January 2018, and the Commission can impose provisional measures after 9 months. Recent changes to the EU's trade policy have shortened this period to 7 months, but these changes do not yet apply to this investigation. The Commission has, thus far, never imposed retroactive sanctions on imports and it is therefore not to be expected that this will happen on this occasion. Following the provisional decision, the Commission will have four months to decide whether or not it will impose definitive measures. Industry sources have declared to expect additional duties of around \$60 per tonne to be imposed on Argentinian SME imports.