Ahead of the Argus Biofuels conference, Argus interviews speakers Sari Mannonen, Vice-President, UPM Biofuels and Alberto Carmona Bosch, Chief Executive Officer, NixAl Commodities.

In these Q&As, Sari discusses UPM Biofuels' post-2020 strategy, Finland's role in supply and the influence of the car manufacturing industry. Meanwhile, Alberto provides an overview of Abengoa Bioenergy's production capacity and highlights the strategies employed by NixAl Commodities to overcome the three biggest challenges in the current market.

Argus: Sari, thank you for joining us as speaker at this year's Argus Biofuels. Could you start by telling us what UPM Biofuels' top three areas of focus are, in preparing for post-2020?

Sari Mannonen: UPM Biofuels is focused on:

- The Lappeenranta biorefinery, which started up three years ago as the world's first biorefinery producing wood-based renewable diesel and naphtha on a commercial scale (www.upmbiofuel.com). The facility has achieved our initial goals, and we continue to streamline production and expand our customer base in the EU.

- Green customers: We have been surprised by the wide interest in UPM BioVerno renewable fuels from companies seeking green and sustainable solutions to cut their carbon footprint. We believe that this trend will continue beyond 2020.

- Growth: UPM has put together a team tasked with identifying growth opportunities in advanced biofuels, including new raw materials and technologies. We believe in the need for large-scale sustainable advanced biofuels capacity for transport, especially in the heavy duty and marine sectors in the 2020s.

Argus: What is Finland's role in the supply of biofuels in Europe? Could you envisage the Nordic markets taking a lead in the development of advanced biofuels?

SM: The advanced biofuels market has definitely grown fastest in the Nordic market because of the adoption of ambitious targets by governments. We believe that the Nordics will continue to lead in innovation and in creating new investment. At the same time, it is not possible for most EU countries to fulfil their ambitious greenhouse gas abatement targets without an increasing share of advanced biofuels.

Argus: How can biofuels producers effectively acquire feedstock supplies, and how will this change post-2020, following the focus on advanced biofuels? Are there limits in the supply of advanced biofuels feedstocks?
SM: Feedstock availability depends very much on decisions made by policy makers on RED2. We believe that there are many new opportunities when it comes to sustainable feedstocks. For example, UPM is testing the Carinata sequential cropping concept as part of future biofuels development in South America. The Carinata winter crop produces non-edible oil suitable for biofuels feedstock, without compromising existing food output.

It is true that many feedstocks have existing uses. However, this should not hinder innovation and new uses. For example, we have just issued a study by Ecofys that showed that our entry in the crude tall oil market by using our own residue as feedstock for biofuels has a minimal effect on existing uses. The Lappeenranta biorefinery is a great example of innovating around our own residue, creating a flagship wood-based biorefinery that serves customers in biofuels and biochemicals.

Argus: Can you assess the role of the car manufacturing industry, and how will European electrification goals affect demand and supply in the biofuels industry?

SM: It is true that passenger car transport will undergo a major transformation in the next decades. However, approximately 70% of diesel is utilised in heavy duty transport today, which continues to grow. In addition, the growing airline industry needs sustainable aviation fuels. For us, it is obvious that all sustainable solutions for reducing the environmental impact of transport are needed. Truly, sustainable advanced biofuels will play a crucial role in decarbonising transport.

Alberto Carmona Bosch
Chief Executive Officer
NixAl Commodities

Argus: Alberto, thank you for joining us as speaker at this year’s Argus Biofuels. Could you start by telling us about the future for Abengoa Bioenergy and its production capacity?

Alberto Carmona Bosch: Abengoa Bioenergy is not what it used to be, as all the assets the company owned have been sold — except for the Brazilian ones, which are in the process of being sold. In general the assets are good assets, very competitive from the cost structure point of view, and very well maintained and upgraded.

In the US, assets have been sold to Green Plains and Kaapa Ethanol, and in Europe assets have been sold to Alcogroup and a private equity firm called Trilantic. The plants sold to Trilantic are now operated under the name Vertex Bioenergy, so the name Abengoa is not part of the industry any more.

The future of these plants is directly linked to the future of the industry and not to Abengoa’s financial crisis. The ethanol business is healthy and was not the origin of Abengoa’s problems, which stemmed from other businesses where Abengoa was active and which were separate from the ethanol segment. I have good expectations for the ethanol industry and expect the assets sold by Abengoa to continue being successful, especially given that the new owners are all very professionally managed companies.
Argus: Can you outline what NixAl Commodities perceives as the three biggest challenges for markets, and your strategy going forward?

ACB: NixAl was born as a spin off from Abengoa Bioenergy, with the ambition of providing market intelligence, risk management services and engineering services for the sugar and ethanol industries globally. We are a small group of experienced traders and engineers, and basically we are doing what we have successfully done for Abengoa for the last 15 years.

We think the ethanol industry faces some key challenges or possibilities for improvement in three different fields — plant efficiency and competitiveness; increasing the use of market tools; and regulation.

- **Efficiency and competitiveness:**

  Given the high-margin environment the industry has faced, the last three years have probably been a good moment for profitable capex projects. Given also that we expect lower prices in the near future, lowering your breakeven and therefore being a low-cost producer will ensure that you suffer less in a tough margin environment.

  Debottlenecking your facility is probably the cheapest and easiest way to increase efficiency. The project will be different for each plant, but in general it is a way to produce above your nameplate capacity.

  On the next level and with relatively low capex, corn oil equipment has a quick pay back, attractive internal rate of return (IRR) and is a source of additional margins that ultimately lowers the breakeven of a producer, something that is key when margins are low. This should be a no-brainer for the European industry, and we have the example of how the US industry has taken advantage of this.

  On a larger scale, corn fractionation is also worth a look at, because as well as improving yields for ethanol, dried distiller grain (DDG) and corn oil, you will have new products like corn fibre, which can be used for the food market or as a source for 2G ethanol.

- **Market tools:**

  I see many producers that are not exploiting all the opportunities that derivatives markets give. I know that derivatives have their own language and it involves risk and maybe because of a bad experience, lack of knowledge, or simply fear, many players don’t use it. But derivatives are tools that have nothing to do with speculation or high risk. And in fact, they provide great opportunities for lower-margin volatility, offer your counterparties what they might be seeking, and secure margins at attractive levels.

  A proper knowledge of how derivatives work — it is not difficult at all — and having a proper risk policy in place are essential in order to take advantage of the opportunities derivatives give.

  For example, buying grains in Europe indexed to Chicago and seeking to benefit from the lower Chicago values is an interesting option.

- **Regulation:**

  The proposal to phase out first generation biofuels post-2020 in Europe is something to work on very hard.

  I want to think that the power of reason is on the side of ethanol — food vs. fuel and indirect land-use change (ILUC) are clearly empty debates — the best demonstration of this is that the European Commission has taken this decision on the post-2020 proposal based on public opinion, and not on scientific evidence.

  There probably needs to be some investment in educating society about the benefits of ethanol. And then the way might be paved to work with the authorities in Brussels. But letting the industry suffer and maybe fall because of perceived negative impacts is probably the biggest mistake because the benefit will go to fossil fuel.
On top of that, we have the problem of emissions and air quality. Ethanol can solve both immediately — with higher blends and no need to wait for other solutions that will take several years and probably decades. This should be brought to the authorities and the industry has to be willing to educate to make clear that we have the solution and not the problem.

**Argus:** Outline the trading trends you expect to see in the next six months

**ACB:** The backwardation we have in the ethanol markets at the time of writing is clearly a buy signal for paper traders, although only in Europe. Long ethanol and short grains would look attractive to me.

Once prices in Chicago start falling — as we explained — short Chicago and long Rotterdam is something that could work, so you could take advantage of the expected arbitrage without the need to move product. And when the arbitrage widens, we should see physical trades long Chicago and short Rotterdam. This spread should give good opportunities once the anti-dumping duty expires.