1.

Chairman, President, Distinguished Guests, Committee Members,
Ladies and Gentlemen,
Our Chairman has set me a challenge to answer the question:
"DOES THE ROTTERDAM PAPER MARKET HAVE A FUTURE?"
My answer will be on broker's terms, pub rules ………. but:

Before we get to the answer …….. Let us first go back in history.
In my case this means we cannot go back further than 1981
When I applied for a job at L. Hendrix. I was told that the brokerage was already active for over 100 years in all kind of F.o.b. and C.i.f. markets in vegetable oils and tallows. One of the first words I picked up were "paper markets". For me as an outsider a totally unknown phenomenon as I had the idea that they were brokers in oils and fats, not in paper.
I soon found out what they meant and as well that in those days there were even two of such so called Fob Dutch Mill markets one for soybeanoil and one for rapeseedoil.
Coincidentally my colleague Ben den Haan, present here this evening was at the same time applying for a job at G. de Vries brokerage, operating in the same markets and strange enough the seniors in both companies told us a similar story about future prospects of these kind of cash commodity markets, not being sure whether this type of markets would continue to still exist within 5 or 10 years.
Anyway I was offered the job at Hendrix and accepted as did Ben at G de Vries, both ignoring the well-meant remarks in the side line. (no regrets)
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Soya usually was trading at a premium over rapeoil but they were partly substitutable by each other and several marketplayers were arbitrating between them. Besides that there was the usual activity of crushers, shippers, consumers, often based on hedging or pricing and let us not forget the role of the trading houses. Talking about the last category there is quite a difference to today's situation.
In the eighties there were still numerous small or medium-sized trading companies in the Netherlands, Germany, Switzerland and particularly here in the UK.

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Often they were the lubricants of the market giving it some extra liquidity for all as the traders frequently returned to their offices after a nice, wet lunch in the pub and were informed about the latest of the market:
"OK my friend, jolly good, let's take a few runs on the book as well then!!" and off we went to get it done. (This species is now more or less extinct although still a few dinosaurs have survived.)
Looking back in the books of these years we noticed many small sized trades of 1 or 2 runs Today there are not as many trades done but their average size is at least 3 to 5 times bigger and reflecting the scale on which companies operate in modern times.
Anyway these paper markets were lively enough to keep some 5 to 10 brokerage companies from The Netherlands, Germany, France and the UK alive although this was usually combined with activities in other markets of either crude or refined oils and fats.
To describe markets in general in the eighties and at the beginning of the nineties one could say that it were supply-driven bear markets with rapidly growing productions, sometimes interrupted by a crop failure or another kind of calamity.
It lead to long lasting price ranges of between 400 and 500 usd for sboil and rso, and Cpo C.i.f. Rotterdam was trading between 300 and 400 usd with dips way below that.
In the mid-nineties the initial one in a 3-stagerocket which brought rapeseedoil to its present status in the EU was launched and caused the first change in the price relation of rapeseedoil versus soybeanoil. Remembering an evening in Amsterdam we had with some Swedish customers. During dinner they predicted that for some specific reasons but amongst them health and nutrional value that within a couple of years rso would at least have the same value as sbo if not tending to become

the premium oil. On the way back to Rotterdam my colleagues and I had a good laugh about these silly Vikings but within 2 years they turned out to be right and consequently we were wrong. Rocket nr 2 was launched in 1998/99 when Western Europe allowed itself the luxury of banning GMO soybeanoil out of the supermarkets.

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Well, in a way we better call this a missile as it destroyed the liquidity in de l Soybeanoil market, it lost a big part of the basis of its competitiveness and enhanced Rso to strongly increase its share in food markets.
But these were only minor events compared with the big blow which occurred at the beginning of the present century when Bioenergy and hence Biofuels became a key item in the EU resulting in an enormous boost for the demand of Rapeseedoil and – seed and RME became the premium type of biodiesel.
Whatever reasons one could give for the rise of this industry, whether it is linked to the wish to have renewable sources as an alternative for mineral oil, being less dependant on supply from politically spoken uncertain areas, or environmental reasons, let us not forget that it was all in all a fantastic alternative for European farmers after the abolishment of subsidies in the EU and it is probably not a coincidence that both France and Germany with their influential farmer's lobbies became the trendsetters in this respect.
In the end the EU target became to have 10% of road traffic fuel from renewable sources by 2020, Representing approximately 22 million ts of biodiesel.
Between 2005 and October 2008, when the financial crisis turned everything upside down there was a goldrush- like expansion of biodiesel capacity and as the increase of crush capacity had not kept pace with that, we saw strongly inverted markets and unprecedental premiums being paid for physical rapeseedoil over "paper".
Crush- as well as refining margins went through the roof but the sky-high prices for feedstock, in the end, put the estering margins under strong pressure and caused a first round of consolidation to the cost of smaller players with poor logistics and in favour of the integrated ones. The paper market profited in all this activity as a lot of this material was either priced or hedged via the Fob Dutch Mill.
I do not want to bother you with too many figures but crushing of rapeseed in the EU tripled from 7,5 Million ts in 1996 via 10 Million in 2000, 15 Mill in 2005 to over 23 Mill in 2011.
One of the most important of these expansions for the "Paper Market" was the fact that One Major Player converted a 1 Million ts Line of its facility into a multiseedcrush. This not only created an additional delivery point besides the already existing ones but as well by boosting its physical liquidity.
It will be clear to you that all these inventories by the industry have been done to meet demand for energy (remember the 10 % target of the EU), not for food which counts for a more or less stable 3.5 million ts demand. In each of 2009/10/11 annually well over 6 million ts of RSO disappeared into energy.
It further increased the liquidity and volume of the Fob Dutch Mill market as a much bigger share of the RME-cake had come in the hands of integrated companies already familiar with trading paper on a daily basis.
Hedging and pricing, either versus refined or physical oil, sustainability frame contracts, crush and reverse crush, basis trading, currency input, spreads against Gasoil or RME, German and Scandinavian crushers rolling their paper positions, this all resulted in active though sometimes very volatile markets.
It may not be the ideal world for mineral oil players, themselves used to limitless volumes without counterparty risk but it was and is the only market in the world where you can trade RSO on such a scale. Success always attracts challengers and this counts in this accounts in this case for the market as much as for the position of Rapeseedoil itself being the most expensive feedstock for biodiesel.
Concerning the outside threats there have been 2 attempts by Euronext/Matif to introduce a future on RSO on the Paris based exchange and both times it failed as did the CME initiated swap

which, in theory should be able to live next to the paper market. In my opinion the three main reasons for these failures were:

a. Firstly, that the two major players with production facilities in the Netherlands were in favour of maintaining the physical character of the market.
b. Secondly the absence of margin calls in the paper market which makes it possible to trade positions far ahead as well as the required volume without stressing credit lines.
c. And thirdly, on average the financial stature of today's market players already diminished the counterparty risk.

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The relatively high price for RSO combined with bad estering margins had forced Biodiesel producers either to look for cheaper feedstock, to decrease or even stop production. And the same applies for RME being the "premium" biodiesel (with excellent winter qualities) giving mineral companies the incentive to look for cheaper alternatives.
Needless to mention PME from the Far East, SME from Argentina, UCOME or TME whether counting double or not, all kind of FAME blends and the trend to overblend with cheaper material in summer and do the opposite in winter when more RME is required but still staying within the mandatory blending targets.
All this combined with the economic slowdown caused a decrease in the use of RSO in biodiesel to an estimated 5 to 4,5 million ts in 2012.
It had a direct effect on crushing margins, created a physical surplus of RSO which pushed spot prices down to competing levels with soyoil and for the first time in many years the EU exported some volume to the Far East.
But the most uncertain element of all will be how politicians will decide about the future of the present generation biofuels.
And without having the intention to offend anyone personally Governments have not always proven to be the most reliable business partners in the past.
The EU Commission already (proposed) to restrict the "crop based" share of the 2020 target to 5% instead of the initial 10, thus limiting this part of the EU biodiesel potential to approximately 11 million ts.
This as a result of the "Food for Energy" discussion and depending on the price development of mineral oil this discussion may become heavier.
The balance 5% has to come now from second generation feedstock based on "waste" either via double counting or in some other way.
An interesting question in this respect is whether it will be possible to find sufficient quantities of "sustainable" waste now that rules will become stricter in the near future but so far its availability has exceeded all expectations.
Anyway, despite all EU targets and plans legislation with regard to biofuels in EU countries is still a patchwork of rules- however for obvious budget reasons since the start of the financial crisis one trend is clear:
More or less all subsidies have disappeared or are about to, and the end user is now the one paying the bill. Most countries have mandatory blending following Germany's example though in different volumes. France and Belgium have a quota system, Spain intended to introduce something similar after the Argentine raid

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on Repsol but in the end decided not to and is still overflowing with PME and SME imports but local production facilities are standing idle.
And in Italy……nobody knows……..
Furthermore, all these countries have different attitudes towards sustainability, double counting, origin of production, technical conditions, energy for food discussion or items like ILUC (Indirect Land Use Change), which is based on total emission balance.

There is the strong lobby for protection of national interests of farmers and the industry since they made huge inventories based on initial EU targets and always there is the threat to come in conflict with WTO or EU legislations, such as competition rules.
On the other side stand the mineral oil companies who have no interest in decreasing their own volume by blending expensive methylesters and trying to cope with the mandate as economically as possible.
Considering this it will be a very tough job to get them all on the same EU line in a divided Europe.
The conclusion that, after an overcapacity of esterification facilities we have in addition now created the same in crushing might be justified and may lead to another round of consolidation.
But unless the EU as a whole takes draconic steps with regard to for example Indirect Land Use Change combined with a different import regime -- and this would badly hurt farmers as well as the industry, and probably in France cause a next revolution –
we expect that for the coming years rapeseedoil with its basis in France, Germany and during winter in the whole of Northwest – and Middle of Europe will continue to have its share in the feedstock of biodiesel.
Growth of market share is unlikely since the EU put a cap on crop-based biofuel. But even if the range would drop to between 4 to 5 million tons annually – the 2012 level - it will still require approximately 20 millions ts crush per year and given the attitude of the market players this will be more than sufficient to maintain the liveliness of the market.

So eventually, and thank you for your patience, my answer to the question of the Chairman is:
Like my peers said in 1981 and as we always say in our business:
Under Usual Reserve: Yes, there is a future for the paper market!!

Ladies and Gentlemen, it is my pleasure to propose the toast this evening, the Toast
Is to the Oils and Fats section,

Thank you!