

# FAQ: Greenhouse Gas (GHG) savings in Platts European ethanol assessments

On July 17th 2020, Platts published three subscriber notes setting out changes to our suite of European ethanol assessments. These were:

- Platts to increase minimum GHG savings in Ethanol T2 FOB Rotterdam assessment Jan 2021
- Platts to discontinue Ethanol T2 FOB Rotterdam German Spec assessment April 2021
- Platts to launch Premium Ethanol T2 FOB Rotterdam differential Jan 2021

This FAQ document provides further information on these changes.

## Why is Platts specifying carbon intensity (CI) rather than GHG saving?

Market feedback indicated a need for clarity in the ethanol specification ahead of the transition from RED I to RED II which will see the fossil fuel comparator change from 83.8gCO<sub>2</sub>e/MJ (grams of carbon dioxide equivalent per megajoule of energy) to 94gCO<sub>2</sub>e/MJ. Member States have until June 2021 to transpose the new legislation, which could see different stages of RED II implementation across Europe, resulting in different fossil fuel comparators in place. In addition, it is not entirely clear if other parts of the GHG savings calculation will also change. To avoid any ambiguity Platts will specify a maximum CI instead of a GHG saving percentage equivalent.

## Which carbon intensity will the T2 ethanol assessment reflect?

Platts will specify a maximum CI of 33.52g CO<sub>2</sub>e/MJ for its T2 FOB Rotterdam assessment and a maximum CI of 16.76g CO<sub>2</sub>e/MJ for its Premium T2 FOB Rotterdam assessment. This is equivalent to 60% and 80% GHG savings respectively, based on a fossil fuel comparator of 83.8gCO<sub>2</sub>e/MJ. This was the conversion at the time the feedback was collected, over March-June 2020, and when the specific thresholds were identified. Platts will be monitoring the implementation of RED II next year and what they mean for the sustainability criteria for ethanol.

## Why is Platts assessing a lower CI specification than the EU legal maximum?

Platts assessments aim to reflect the most fungible portion of the market. The European ethanol market is fragmented and a single specification will not be the best match for every country, data and feedback indicate that several

countries within the broader ARA region and across Europe already blend ethanol with GHG savings much higher than the legal minimum of 50% GHG savings or maximum CI of 41.90g CO<sub>2</sub>e/MJ. As a result, the maximum CI of 41.90g CO<sub>2</sub>e/MJ no longer represents the most fungible and liquid portion of the market. This segment of the market remains relevant, which is why the Platts Market on Close process will continue to reflect bids, offers and transactions up to a maximum CI of 41.90g CO<sub>2</sub>e/MJ, but normalized to the specification of a maximum CI of 33.52g CO<sub>2</sub>e/MJ. Market feedback indicated that product with the legal maximum CI often trades at a discount to the Platts assessment.

## How will Platts normalize indications?

The Platts Market on Close for T2 ethanol will give the option for bids and offers to be published via two sets of instruments. The first will reflect bids, offers and trades reflecting a maximum CI of 33.52g CO<sub>2</sub>e/MJ, while the second will reflect bids, offers and trades reflecting a maximum CI of 41.90g CO<sub>2</sub>e/MJ. As the first instrument will match the specification of the Platts T2 ethanol FOB Rotterdam assessment, indications can be directly used to determine value. Indications from the maximum CI of 41.90g CO<sub>2</sub>e/MJ instrument will be normalized based on a spread between the two specifications. The spread can emerge from bids and offers in the two MOC instruments and from “heard” indications based on market survey. Platts will track this spread on a day to day basis.

## Will new CI requirement require all Proofs of Sustainability (PoS) supplied by sellers to have a maximum of 33.52g CO<sub>2</sub>e/MJ, or could sellers use an average of higher and lower savings to meet that level?

Market feedback indicated that typically market participants would expect all of the PoS supplied to be within the maximum of 33.52g CO<sub>2</sub>e/MJ, if partials are employed. There are occasions when contracts allow for greater flexibility but this is not the market standard. Platts will expect sellers to make best efforts to provide all of the PoS within the maximum of 33.52g CO<sub>2</sub>e/MJ requirement.

## Why has Platts chosen to use minimum 60% GHG savings (maximum 33.52g CO<sub>2</sub>e/MJ) as the GHG threshold for the FOB Rotterdam Ethanol assessment?

Average GHG savings in the ethanol consumed in a number of key European countries is already well in

excess of the 60% level: the Netherlands achieved 66.8% GHG savings in ethanol consumed in 2018, the latest year for which data is available, while Germany achieved 86.4%. In 2019, the United Kingdom achieved 72.4% GHG savings in ethanol consumed. In early 2019, Platts conducted a review of the trades concluded within the framework of the Platts Market on Close assessment process, which already showed an average GHG savings level of 59.4% despite the minimum level reflected in the MOC being 50%.

Engagement with the market has shown that, while there is no precise inflexion point, 60% is increasingly seen as a minimum level acceptable across multiple destinations for fuel ethanol.

### Why has Platts chosen to use minimum 80% GHG savings (maximum 16.76g CO<sub>2</sub>e/MJ) as the GHG threshold for the FOB Rotterdam Premium Ethanol assessment?

Market feedback has indicated that sellers in the European market regularly deliver ethanol with GHG savings higher than the contractually stipulated level, for material within the mid-range of the GHG spectrum. As a result, the minimum 60% GHG savings market extends to cover significantly higher GHG savings as well.

Platts research suggests that this ceases to be the case at around 75-80% GHG savings, and that these levels of GHG savings constitute the lower range of a separate market in terms of price and dynamics. However, given fluctuations in supply and demand for ethanol within Europe, Platts understands that ethanol with GHG savings between 75-80% can at times form part of both markets. Because of this, 80% GHG savings tends to be the lowest level at which there is a consistently distinct value compared to ethanol with 60% GHG savings.

### Why has Platts proposed an ARA basis for the Premium Ethanol assessment?

The Amsterdam-Rotterdam-Antwerp region is Europe's major trading hub for all types of road fuel, including ethanol, which is one of the reasons why it is the basis for the existing Platts FOB Rotterdam T2 Ethanol benchmark. The Premium Ethanol assessment (maximum 16.76g CO<sub>2</sub>e/MJ) will be assessed as a premium to this benchmark, providing the market with a clear point of comparison between these two related price points. Due to the full alignment between the Premium Ethanol assessment methodology and the Platts FOB Rotterdam T2 Ethanol benchmark, the spread between them will solely reflect the difference between the different levels of carbon intensity seen in the European market.

### Why is Platts making this change now?

Since the entry into force of the first Renewable Energy Directive (RED I) and Fuel Quality Directive (FQD) in 2009, the European biofuels market has evolved significantly, and companies increasingly need to demonstrate higher GHG savings in road transport fuels. The European ethanol market is no exception, and Platts has been carefully monitoring typical GHG savings over recent years in order to understand how far Europe has progressed towards lower levels of carbon intensity becoming the most fungible part of the market. As a result of the feedback generated by an ethanol consultation held by Platts over March-April 2020, and a further period of consultation following a proposal published in June 2020, it became clear that there has been a noted shift towards higher GHG savings in the European ethanol market which appears likely to continue for the foreseeable future.

### To find out more

If you have questions about these changes, or any other topics related to European ethanol assessments, we invite you to contact us at [europa\\_ags@spglobal.com](mailto:europa_ags@spglobal.com).

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