



# Trading Ethanol A global product

SCB Group

# Paper Swaps Three Practical Uses

- 1) Paper Swaps as a pricing mechanism for physical deals
- 2) Paper Swaps as a mechanism for securing prices
- 3) Paper swaps for speculation

# Bursting of the Oil Bubble, will Biofuels survive?



## EU 27 Member state biofuel volumes 2007 - 2010

Member State	2007	2008	2009	2010
Austria. Volume	266,248	356,029	356,029	356,029
Belgium. Vol	272,491	330,883	389,274	447,665
Bulgaria. Vol	-	-	-	-
Cyprus. Vol	-	-	-	-
Czech. Vol	153,757	153,757	345,954	345,954
Denmark. Vol	-	-	-	-
Estonia. Vol	20,034	20,034	20,034	57,597
Finland. Vol	-	-	-	-
France. Vol	1,670,391	2,744,213	2,744,213	3,340,782
Germany. Vol	2,144,985	2,696,553	4,289,970	4,289,970
Energy	-	-	-	-
Greece. Vol	248,976	331,968	414,960	477,203
Hungary. Vol	-	-	-	430,369
Ireland. Vol	56,038	71,729	71,729	184,126
Italy. Vol	881,610	1,322,414	1,763,219	2,204,024
Latvia. Vol	59,335	72,049	84,764	97,478
Lithuania. Vol	-	-	-	144,373
Luxembourg. Vol	-	-	-	19,992
Malta. Vol	-	-	-	-
Netherlands. Vol	259,883	259,883	259,883	701,561
Poland. Vol	652,861	652,861	652,861	1,632,153
Portugal. Vol	237,272	454,771	454,771	454,771
Romania. Vol	319,221	478,832	638,443	638,443
Slovakia. Vol	128,425	160,531	196,651	230,764
Slovenia. Vol	30,112	45,168	60,224	75,279
Spain. Vol	-	638,220	1,142,078	1,931,456
Sweden. Vol	204,371	204,371	204,371	391,712
UK. Vol	-	1,127,715	1,691,573	2,255,430
Energy				
Metric Tonnes	7,606,010	12,121,982	15,781,000	20,707,132
US Gallons in million	2,282	3,637	4,734	6,212
		<b>EU Mandate 2010</b>	<b>EU Mandate 2020</b>	
Energy Content %		<b>5.75</b>	<b>10.00</b>	
Metric Tonnes		22,350,301	36,945,813	
US Gallons in million		6,705	11,084	

(1) Assumed energy value of 0.812 for all biofuel, ethanol is however, lower.

(2) EU 27 Transport fuel demand of 300m MT per year, source, IEA and CONCAWE.

(3) It is assumed that fuel usage is constant across countries, which will underestimate demand as those countries with higher mandates have higher fuel use given they are richer.

# EU Biofuel Mandated Demand

National Mandates  
where shown

EU wide Mandates

# Paper Swaps as a pricing mechanism for physical deals

Parties agree a volume for a forward date, with the price to be set at the time as a spread to an Platts assessment.

**BUYERS:** Paper Swaps pricing offers a way to secure volume for future dates without fixing price, to have the security of product at a then market level.

**SELLERS:** Paper Swaps pricing offers a way to secure sales volume for future dates without fixing price now and so avoiding the risk of negative margins. This ability to avoid negative margins is crucial.

# Paper Swaps as a mechanism for securing prices



Parties agree a price for a forward date, with the transaction to be financially settled against the then Platts assessment.

**BUYERS:** Paper Swaps pricing offers a way to secure price exposure without having to deal in physical volumes.

**SELLERS:** Paper Swaps pricing offers a way to lock margin minimums if one secures feedstock prices simultaneously a producer can then benefit from negative margins.

# Paper Swaps as a mechanism for speculation



For both buyers and sellers, paper swaps offer a lower cost mechanism for taking speculative positions in biofuels. This can be for outright exposure, spread against mineral oil or a bio-crack trade, a spread versus the feedstocks.

Given the current market conditions the amount of speculation in the market has dropped substantially.

# Sugar vs Crude oil spread is the key

<HELP> for explanation.

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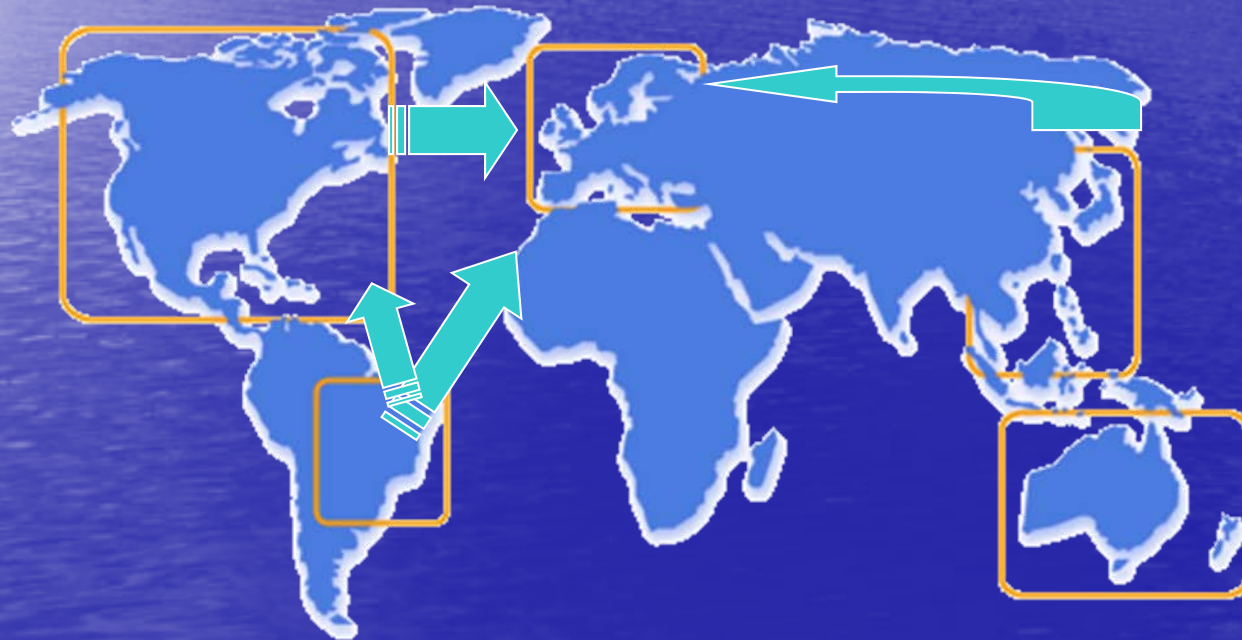
Sell SB1 Comdty Buy CL1 COMB Comdty Edit Page 1/71 Price Ratio  
Data Last Price Data Last Price 10/29/04 - 10/28/08 Daily Local CC



51) GR	52) Spread	53) Ratio	54) Correlation	55) Regression	56) Arbitrage
Australia 61 2 9777 8600	Brazil 5511 3048 4500	Europe 44 20 7330 7500	Germany 49 69 9204 1210	Hong Kong 852 2977 6000	
Japan 81 3 3201 8900	Singapore 65 6212 1000	U.S. 1 212 318 2000	Copyright 2008 Bloomberg Finance L.P. G360-32-2 28-Oct-2008 14:55:23		

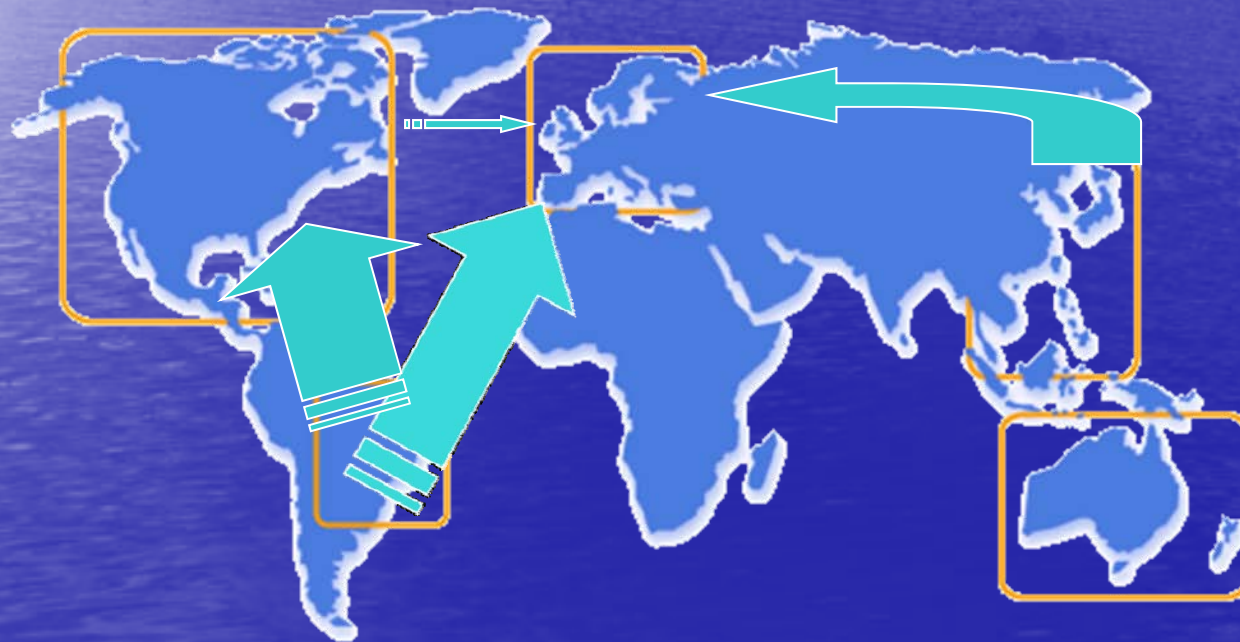
# Global Trade Flow of Biofuel 2007

The primary driver of trade and profitability is government action.



# Global Trade Flow of Biofuel 2009

The primary driver of trade and profitability is government action.



# SCB Group

- SCB Group is the leading biofuel brokerage firm.
- Transactions arranged in physical product include spot, term or multi-month deals and competitive tenders.

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