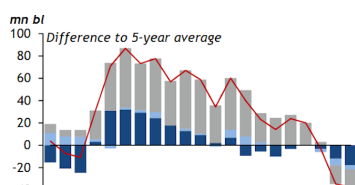




Channoil Energy & Net-Zero-Solution Autumn 2021 Newsletter

Welcome to our Autumn newsletter, in this ever-moving world of energy transition with COP 26 underway and the emergence from the Covid pandemic.

In this Issue



Middle Distillates Winter Season

Buckle up for a bumpy ride, now may be the time to ensure your oil price risk controls and hedging strategies are firmly in place.



Meet our new Associates

Olivier Mace and Andrea Abrahams join us, bringing over 60 years experience to Biofuels and Energy Transition.



Our Expert Witness News

Catchup on four cases in focus.



Energy transition, carbon footprint, alternative fuels, renewable energy, mobility/transportation solutions

Our new Net-Zero-Solution division has focussed initially on three key areas:

Biofuels – with projects completed for an ethanol plant investment, a renewable market entry study, a global renewable diesel study and a market study to support a potential investment in incremental ethanol storage capacity.

LPG, as a transitional fuel in the developing world with major carbon, health and environmental benefits over charcoal and wood. This will be fundamental given the COP26 drive on reversing deforestation by 2030 and over 1 billion people world-wide still cooking on wood or charcoal.



Recent projects include a market study for an African LPG terminal expansion, a commercial market entry into a Caribbean country, input into the 2021 Kenya masterplan mapping out the steps required to increase LPG threefold over the next 20 years, LPG and Autogas country pricing policy study and a commercial market study for refrigerated LPG terminal in a northern European country.

We have expanded their delivery team of experts to cover **energy transition** with a focus on the Retail service station sector. These individuals have in depth experience in major multinationals in defining, planning, and implementing energy transition including:

- Carbon Reduction Strategy
- Roadmap for transformation
- Managing the transition of the retail service station sector

With contractual and business matters staying as challenging as ever in the energy complex, we remain active as a business on **expert witness** assignments.

Finally, it's important to remember the impact that changes in investment flows and the recovery from Covid-19 is having on the energy complex today. The current spike in **gas prices** is creating ripples in the pond. Read our article on **middle distillate prices** below.

Now may be the time to ensure your oil price risk management controls are firmly in place and your hedging strategies against purchase, sales and events, are well oiled. [Speak to us](#)

New Associates



Biofuels Expert

Olivier Mace

- 30 years of experience
- Passionate about biofuels
- Led and implemented ambitious biofuels agenda for large oil company.
- End-to-end biofuels value chain



Net Zero & Carbon Markets Advisor

Andrea Abrahams

- Senior executive on energy transition, net-zero targets and roadmaps
- Advising from board level to businesses

- In-depth regulatory expertise on biofuels.
- Expert in compliance with mandates and optimisation of biofuels targets.
- Feedstock choices.
- Conversion technology
- Strategy
- Financial and market analysis
- Regular speaker in many global biofuels conferences
- 30 years at BP and independent consulting
- Carbon offsetting best practise and strategy
- ESG strategy and strong governance expertise
- Marketing strategy
- Expertise in strategic partnering for mutual benefit

[View more on our associates](#)

By Olivier Mace, Associate Net-Zero-Solution

Negotiating the Renewable Feedstocks world

Choosing feedstocks for the production of [#RenewableFuels](#) has been a minefield for unwary investors since the early days of the sector. After a short-lived honeymoon with the environmental lobby in the early half of the 00's, the challenges started coming thick and fast – Food vs Fuel or Indirect Land Use Change to name a few. New crops like jatropha have been presented as "miracle crops", before falling into relative anonymity in recent years. Palm oil, despite being an excellent feedstock quality-wise for [#RenewableDiesel](#) and [#SAF](#) production, has come under enormous criticism by being linked to deforestation of South-Asia native rainforests.

More recently, environmental NGOs have orchestrated a deliberate campaign challenging the use of forestry biomass for bio-energy production. For producers, technology developers, and the finance providers keen to invest in them, understanding the sustainability aspects of the feedstock they rely on – and crucially, how these are treated within biofuels regulations across the world – is as important as understanding the economics of feedstock sourcing and supply.

Furthermore, the carbon intensity of these feedstocks, which is fundamental to the carbon abatement realised, plays a critical role in both the value created in specific jurisdictions, as well as to the cost of the feedstock. No wonder, therefore, that those investors are very wary of making the wrong choice. Picking the right feedstock for the right technology, products and place will continue to be the key to unlock the high returns that this sector is capable of.

Net Zero Solution: *we extensive expertise in biofuels and renewable fuels regulations across Europe and North America, of the wide array of renewable fuels production pathways, and of the impact of feedstock choices on regulatory incentives and the economics of projects.*

“Net Zero” – a rally cry for urgent action

(July 2021)

Helping companies develop their Net Zero strategies comes with a series of challenges which we at Net-Zero-Solutions can assist you with.

Firstly, the term poses a problematic starting point for companies. It emanates from the Paris agreement Article 4.1 referring to a planetary state where the Parties aim to “*achieve a balance between anthropogenic emissions by sources and removals by sinks of greenhouse gases in the second half of the century*”.

Using the term ‘net zero’ to then apply to companies’ support for Paris, needs to remain true to this intent but be recast as an aspiration that companies can strive for. Is this possible?

Yes, we believe it is, but sadly there are pitfalls which are causing division and challenge (see [The net-zero backlash has arrived | Greenbiz](#)) just at a time when we need solidarity, action and pace.

The primary challenge is that net zero for companies is not set out in policy or has a standardised definition. There have been impressive efforts to do this, for example by the Science Based Target Initiative (SBTi) www.sciencebasedtargets.org but not all companies follow this guidance or indeed, agree with it.

So, what then do companies do who want to genuinely do the right thing but avoid inadvertently receiving a backlash of criticism?

Firstly, understand your emissions profile, what is your baseline and where are you heading. Then understand what your profile needs to be to be aligned with climate science. Ideally you should be aiming to align to a 1.5°C pathway. Whilst different industry sectors have different 1.5° decarbonising pathways (if you are following SBTi), a rule of thumb for all sectors is to aim to reduce emissions by approximately half by 2030 and achieve net zero by 2050.

Working out how you do this is the next challenge. It will take a deep understanding of the sources of emission in your business, what you can do to reduce them and what new business models you can adopt. For many companies, this is business transformation and should be tackled as such. Of course, you will not have all the answers about future technology developments and carbon price trends, especially with regards to the longer time horizon to 2050. Therefore, having access to experts who can help you make the best educated business judgment will be a key success factor.

Once a company has determined its net zero pathway, it must commit to short and medium term targets to ensure stakeholders can hold them to account.

Putting this multidimensional puzzle together is complex as it requires input from across the business. It also needs to result in an attractive investor proposition. While it appears, consumers are reluctant to pay a premium for green, so too are investors cautious about the short term impact of this

business transformation on their holdings, albeit the business is future-proofing itself.

Middle Distillates Winter Season

Buckle up for a bumpy ride?

In Europe we are already reeling from the meteoric rise in natural gas prices, but as was pointed out at the recent OPEC+ meeting, oil prices have risen just 29% whilst European gas prices have risen some 500%.

Even coal prices have firmed some 300% over the same period.

Of course, some will argue that OPEC+ co-ordination meeting and the establishment of strategic stocks for crude and oil products has merely been doing its job in preventing unmanaged supply shocks as the world recovers, if rather hesitatingly from the COVID-19 pandemic. However, a closer look at some of the other fundamentals may indicate the need to buckle up for a volatile winter and spring '22.

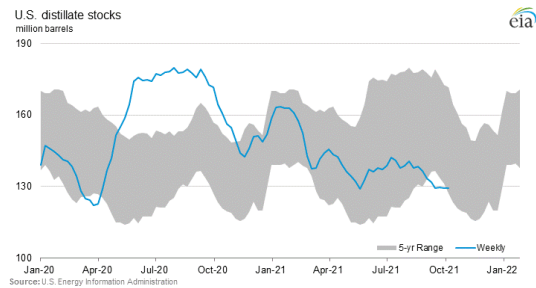
In the US Gulf hurricane Ida's arrival was possibly the worst of a withering storm season that left Shell's 230 kb/d petchem refinery complex shut down, and is only now slowly re-starting. Overall US refining capacity utilisation stands at 86%, yet despite this relatively healthy rate US distillate stocks have currently fallen to 5-year lows.

Globally, as the IEA derived graphic shows, global distillate stocks have similarly fallen to 5-year lows, with Europe looking particularly vulnerable as we head into the northern hemisphere winter.

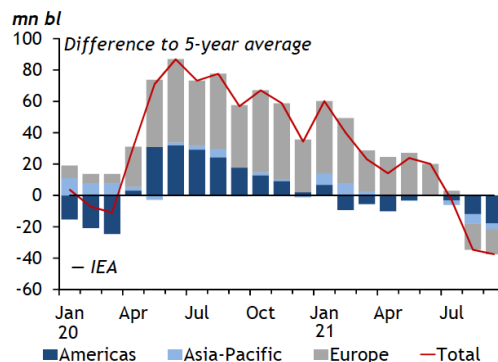
Long range weather forecast already point towards a cold European winter, and should this occur, there seems little slack in system to cope with incremental demand for additional home heating, industry in recovery or back-up power generation (should the gas supply situation deteriorate further).

Expect ICE gasoil inter month futures spreads to widen should further news items give the merest hint of further supply chain stresses from any of these sources.

Now may be the time to ensure your oil price risk management controls are firmly in place and your hedging strategies against purchases, sales and events are well oiled.



OECD middle distillate stocks



Expert Witness News

We have recently worked on a range of cases.



Major Oil Refiner. The major oil company suffered part damage and disruption of its supply logistics from two cargoes of crude oil which arrived with a high concentration of organic chlorides.

Once a crude oil has a high concentration of OCs as against the norm of less than 1 ppm, the OCs will concentrate in the naphtha and to some extent the kerosene cuts on the distillation column and being highly corrosive, will damage the primary distillation trays and the secondary units that the products flow through thereafter, including the distillate hydrotreater and the catalytic reformer.

In both these cases Channoil was asked to carry out a study of the damage caused and the financial costs associated with the shutdown of the particular units and the consequences arising therefrom.

We were able to bring a pragmatic, knowledge based, analysis to bear on the cases that were subsequently amicably settled by the supplier giving a sizeable discount to the value of the cargoes.

Breach of contract – non delivery of petroleum supplies. There have been a number of cases of breach of contract during the Covid-19 pandemic. The reasons are manifest, but most relate to disincentives due to price volatility. We have been tasked with establishing whether the supplies actually existed and if so, what is the loss that the defendants incurred due to the breach. These exercises entail a deep knowledge of the workings of the market, as well as an intimate acquaintance with the production profile of the source and the reliability thereof.

Biofuels – We have also been able to advise clients in cases where oil seeds were the main cargo in a breach of contract case. However, the seeds were destined to be crushed to manufacture bio diesel. We were able to advise clients of process and procedure in filing a claim under the FOFSa contract terms and to finding lawyers to act for them. The cases we advised on were settled without recourse to Arbitration, to both party's satisfaction.

A Taxation Authority needed advice as to how to set a formula for rebating liquids returned from Vapour Recovery Units (VRU) and returned to stock, having already paid excise. We were able to benchmark best practise and derive a formula that would work for both the revenue and the oil companies affected.



NET-ZERO-SOLUTION



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