



EUROPEAN ENERGY SECURITY

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“Governments and regulators have a crucial role to play. They can help ensure the availability of global energy flows.”

What does Vopak plan to do to overcome the lower demand for crude oil, gasoil and biofuel storage in the Netherlands?

Let me first briefly introduce Vopak. Tapping into a history of almost 400 years, we are the world's leading independent tank storage company. Our marine terminals are strategically located on all continents along the major shipping routes for oil, chemicals, LNG and biofuels. We are specialised in the storage and handling of these liquid bulk products and as such we do not own nor trade products. We focus on providing excellent service and building long-term relationships with a wide variety of clients, who include national and international companies and governments. We operate both in mature and growth markets, alone and in joint ventures, with one-third of our activities in Asia.

Last year, Vopak did indeed experience lower occupancy rates of our Rotterdam storage tanks for crude, gasoil and biodiesel, for different reasons. For crude oil and gasoil, backwardation took away incentives to store product. For gasoil, competition increased; we also concentrated the strategic reserves that we store for several governments in the northern part of the Netherlands. This meant relocating product from one Rotterdam terminal, which now needs to be adapted to accommodate a higher throughput. For biodiesel, import duties levied on product from outside the European Union resulted in lower imports. As a result, we reached average occupancy rates of 83 percent in the Netherlands in 2013, compared to global occupancy rates of 88 percent. That was one of the main reasons for our slightly lower earnings in 2013 – a novelty after a decade of double-digit growth.

Our answer to these and other challenges in the energy markets is, first, to continue aligning our terminal network to meet our customers' needs and cap-

italise on future business prospects. That requires relentlessly analysing global trends to pinpoint current and future product flows. These analyses enable us to determine how our terminal network should develop. We divest at locations with insufficient prospects, strengthen existing key locations and constantly look out for new locations. Our global storage capacity will grow from 31 mcm today to 37 mcm by the end of 2016. Secondly, our strategy focuses on improving service at our terminals while increasing cost efficiency. We aim to match the best among our clients in terms of safety and environmental performance.

What is your perspective on the uncertainty in the global energy markets?

There is no uncertainty about global demand, which is expected to grow by some 60 percent in the next 25 years – as it has in the last 25 years. But there is uncertainty about future energy choices, prices and flows. What will be the winning choices? Coal? Gas? Oil? Renewables? Other sources? Those choices will depend on the future *price* of each kind of energy and they will determine the future geography of global energy *flows*. How those factors – sources, price and flows – will play out, will determine the readiness to invest in energy infrastructure, including storage. That infrastructure is badly needed to face the growing worldwide imbalance between energy supply and demand. Because of that imbalance, companies are ready to transport energy over ever-longer distances, increasing the integration of energy markets. This applies to crude oil as well as to gasoline or liquefied gas. This trend stimulates investments in energy infrastructure. To give you an example: the financial risks of building an expensive LNG export terminal are mitigated by the possibility to ship LNG all over the world. That, in turn, increases the availability of energy and

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Anticipated growth in global energy demand
60 percent in the next 25 years

Vopak targeted storage capacity in China by 2016
3.9 mcm

Throughput capacity of Vopak's Rotterdam Gate terminal
12 bcm per year



thus enhances the security of supply. In other words, the uncertainty in the energy markets is being mitigated by globalisation. Yet this is not a given. For instance, major countries can still stimulate infrastructural investments and lower logistical costs by allowing cabotage and establishing an effective legal framework to enable bonded storage, including the blending of products. So governments and regulators have a crucial role to play. They can help ensure the availability of global energy flows by liberalising the energy markets and agreeing on regulations that enable trade.

Considering China's growing energy demand, does Vopak have plans for expansion into China?

Absolutely! We are more than doubling our storage capacity in China, increasing it from 1.4 mcm today to 3.9 mcm in 2016. Vopak is already the largest independent liquid chemical storage provider in China. Together with our partners in several joint ventures, we currently own and operate six terminals in China, mainly storing chemicals and oil. Last March, Vopak acquired shares in a new industrial terminal in Gulei Industrial Park, in Fujian. We now have a presence in three of the seven parks that the Chinese government earmarked for the development of the petrochemical industry. We are also developing several new termi-

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nals at key locations in China. In the Yangpu Economic Development Zone in Hainan, we will have the region's first independent oil storage terminal that can receive very large crude carriers. The crude oil flows to that part of China are expected to grow considerably and the Hainan terminal will serve as a hub at the crossroads of major shipping lanes connecting the Middle East and Africa to the Far East.

LNG is important to Europe as it tries to diversify its energy mix for economic and political reasons. Will Vopak be able to capitalise on future United States LNG shipments with its facilities in the Netherlands?

It is a fact that most countries strive to enhance their security of supply by diversifying both their energy mix and sources. The crisis in Ukraine seems to be strengthening that thinking. LNG is one option to diversify the energy mix. It can be shipped from various sources in all directions all over the world.

Our Gate terminal in Rotterdam, a joint venture with gas infrastructure company Gasunie, is a state-

of-the-art terminal where the largest LNG ships can dock. It was inaugurated in 2011 and stands ready to receive American LNG. But there are three “ifs.” Gate will only see new LNG flows come in from the United States *if* American companies are allowed to export more LNG, *if* they decide to export to Europe and *if* our customers decide to buy American LNG.

Gate has long-term contracts with major utility companies like E.ON Ruhrgas and Dong for a throughput of 12 bcm per year – the equivalent of one quarter of the Netherlands' annual gas consumption. How will that capacity be used? That is up to our customers, the utility providers. *They* will decide whether or not to buy American LNG.

If they do, will there be a need to construct new LNG terminals along Europe's coasts?

In the past year, Gate has evolved from an import terminal to a hub terminal, from where LNG is also re-exported. Technically, we can expand the storage capacity at Gate with a fourth tank, which would increase Rotterdam's potential throughput of LNG to 16 bcm per year.

We are also looking into opportunities for starting LNG bunkering and expanding truck loading in Rotterdam. Eastward, we are looking into the feasibility of building small-scale terminals in Tallinn, Estonia, and in Gothenburg, Sweden. These locations could serve markets that are too small to receive the largest LNG carriers, but interesting enough for smaller LNG ships. In Fos-sur-Mer, near Marseille, we are conducting a feasibility study for an LNG terminal to bring more gas to the South of France and to develop small-scale activities.

Will LNG be the answer to Europe's energy needs?

We are positive about the future of LNG, for Europe as well as for Asia, but it is not the answer to all our needs. When talking about LNG in Europe, we should distinguish between the short and the long term. For now, LNG can hardly compete with other sources. In Northern Europe, the price of LNG is higher than pipeline gas due to the high demand in Asia. And pipeline gas cannot compete with coal, as demonstrated by the recent closure of gas-fired power plants. For the long term, the share of LNG in Europe's energy mix will continue to grow. Gas is the cleanest fossil fuel and LNG allows for impressive emission reductions for trucks and ships.

Globally, our LNG results increased in 2013. We expect these results to keep growing, as liquidity in the global LNG market increases, with more liquefaction capacity, more players, more trade and more short-term contracts. As global LNG trade increases, so does the need for flexible and independent storage. Vopak entered the LNG business three years ago with terminals in Rotterdam and in Altamira, Mexico. Our ambition is to build a global LNG network with a few major hub terminals and several small-scale terminals to serve smaller markets and remote areas. We believe in the growing role of LNG. ■