



BUILDING BRIDGES IN THE ENERGY LOGISTICS VALUE CHAIN

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Given the context of IEF's focus on promoting cooperation between energy producers and consumers, how does Vopak see its role in the energy supply chain?

The world of energy is more dynamic than ever before. Energy producers and consumers are forming new alliances, gas and oil flows are finding their way around the world through ever more complex networks, and emerging markets are shaping global markets. Meanwhile, there is growing interest in new forms of energy, and in diversification and in sustainable energy production. And through it all, supply and demand are continually fluctuating. In this situation, independent service providers have a unique role to play.

The global economy is changing and the structural geographical imbalance in the production and consumption of oil products, chemicals and natural gas is increasing – at both the regional and global level. At the same time, the demand for energy is growing, especially in non-OECD countries in Asia, the Middle East, Africa and Latin America. This thirst for energy is triggered by expanding populations, rising gross national products, and increased mobility. In particular, the demand for fossil fuels has risen significantly, while the need for chemicals and vegetable oils to support industrial production in these regions has also increased.

INCREASING DEMAND

These developments have clearly led to an increased demand for the physical transport of products and, as a result, for the efficient and secure storage and transshipment of these products. Concurrently, many emerging countries are becoming big energy users; they are relying on imports to supplement their local resources in order to meet their growing demand. This creates a need for more transport to move the energy from producers to consumers, and for reliable storage solutions, with sufficient tankage, to meet the needs of consuming countries. Producing countries, for their part, need a solid infrastructure that will enable them to facilitate their production in the most efficient manner. In general, sufficient tankage is essential for markets to operate efficiently, and a reliable infrastructure is needed to connect the logistics networks of producers, handlers and consumers.

AN INDEPENDENT ALTERNATIVE

Producing and consuming parties therefore have a choice – either to build their own terminals or to utilise

independent storage and transshipment specialists. The prerequisites for storage are being present in the right logistic location; having a strong and clear focus on safety, security and sustainability; and delivering reliable and efficient services. The overall benefit of independent storage facilities is that they alleviate the pressure on a party's logistic systems. They can also lower costs, as they can generate economies and efficiencies of scale: after all, storage used solely by one party is always more expensive than creating economies of scale through usage by multiple parties. Given this fact, storage providers such as Vopak, with their expertise and global presence, can contribute to the improved reliability and efficiency of regional and global supply chains, optimising volumes and guaranteeing environmental health and safety.

KNOWLEDGE OF THE MARKET

Vopak's success as an independent service provider depends on its ability to respond to changes in the energy market. This requires a deep understanding of both global and local markets. Each terminal needs to be aligned with a region's long-term trends and requirements, and understanding these factors is essential in order to be able to secure the right location at the right moment.

For this reason, we invest substantially in business development globally, and continuously monitor and anticipate future changes in product flows. Our teams continually seek out and evaluate appropriate sites for storage and transshipment in strategically situated ports. At the same time, we also engage in intensive discussions with key parties, to understand their markets and take heed of their queries.

Independent service providers occupy quite a unique position in the link between producers and consumers of energy. For us, it is about building bridges: our role is to make that connection possible.

Our business is also to create a connection between global and local levels. We invest a great deal at a global level; and we remain very active at the local level in the countries in which we operate. For example, in many of our locations, we have local joint-venture partners, where most of our employees originate from the local area. In our view, once a good location has been secured, it is imperative to make a sustainable long-term investment and create permanency for all parties involved. Here,

we add value by offering host countries a high-quality infrastructure, thus increasing the country's options for energy flows. From a macroeconomic viewpoint, our aim is to remove as many barriers as possible and to maximise the range of options. With greater choices, the more liquidity there is in the market, thus more value created and better efficiency between supply and demand. Efficiency, however, requires a regulatory environment which is open to market parties and ensures that there are no trade barriers, whether in relation to financial, transport or customs matters.

Energy security is a major theme of the IEF dialogue – what part does Vopak see storage playing in energy security?

Oil, gas and chemicals are the lifeblood of economies today, and security of supply is more urgent than ever. How countries deal with energy security varies from region to region, and traditionally, the interests of producing and consuming countries differ – security of demand versus security of supply respectively. Yet, both governments and companies in these arenas are definitely attaching greater importance to the subject.

A clear example relating to security of supply is, of course, the IEA measure requiring each IEA member to hold oil stocks equivalent to at least 90 days (of net imports), and to maintain emergency measures for responding collectively to sudden disruptions in oil supply. For a country to be able to import and export sufficient energy products, its government needs a solid logistics and terminal infrastructure. This is precisely where independent service providers come in. In this respect, Vopak, for example is building a strategic storage facility at Eemshaven in the Netherlands.

On another point, the IEA predicts that by 2035 the world will require approximately one-third more energy than it does at present. This means that governments should adopt a multi-product approach and investigate different energy sources. In other words, it is vital to diversify one's energy portfolio as much as possible. The recently opened Gate terminal in Rotterdam, the first LNG terminal in the Netherlands, will not only reduce the country's dependence on particular sources of energy, but will also provide companies with an additional option besides pipeline gas.

Diversification of supply is certainly a positive step towards ensuring energy security. In our view, it is essential for countries to utilise various energy sources,

and that – in due course – consuming, transit and producing countries will cooperate on matters of energy production and consumption.

Is the mix in Vopak's energy storage changing – for example, from oil to biofuels and LNG?

With the growing demand for energy globally, traditional energy resources still remain strong. While oil remains important, we see a relatively stronger growth in renewables and natural gas. The demand for the latter is attributable to its clear advantages over other fossil fuels. Firstly, it is the cleanest fossil fuel. It also costs less to transport over long distances than pipeline gas (a significant factor, given the growing geographic imbalance between the demand and supply of natural gas). Lastly, LNG offers greater diversification of supply than pipeline gas.

In 2011, Vopak not only entered the natural gas market with the opening of Gate terminal in the Netherlands, but also acquired the Altamira LNG Terminal in Mexico. Given the growth in oil products and renewables, Vopak energy storage will continue to be representative of the above noted energy segments, including LNG.

On the whole, our primary business model remains unchanged, and we will continue to add value in our current role by performing a specialist niche activity as an independent provider of conditioned storage facilities for bulk liquids. Importantly, Vopak does not own products and ownership remains at all times with our customers.

THE LOGISTICS CONTRIBUTION

It is important for us to be involved in the global dialogue with large oil companies (both IOCs and NOCs) as we are well-positioned to address their logistic and commercial needs. The industry realises that logistics issues are important to the overall discussion, and an efficient supply-on-demand system supports their business model. Vopak is honoured that we have the opportunity to contribute to the International Energy Forum and to exchange ideas with other participants on how logistics can be used most efficiently and effectively in the coming years. Vopak welcomes and supports the Joint Organisations Data Initiative (JODI). It will ensure a single set of data on the oil market, and help to promote transparency and clarity for all parties across the sector. ■