

# Global Fatty Acids Markets

## General Methodology Consultation of 24 July 2015

### Section 1: General Questions

#### **1. This methodology seeks to provide a reliable measure of physical market value. How well do you think the ICIS methodology achieves this aim?**

Neither the current ICIS "Methodology for Fatty Acids" nor the "General Methodology" (which applies to all price assessments) achieves this aim.

In our opinion, the methodologies do not provide an appropriate basis for a reliable price assessment, which can only be achieved with a methodology that requires both the usage of real net-transaction-prices and a transparent price formula.

The current "Methodology for Fatty Acids" gives only a brief overview of the fatty acid market, the different specifications and the types of prices available from ICIS but does not determine any requirements with regard to the data used for calculation of the prices. A differentiation between Contract Prices and Spot Prices is missing at all for Europe - although both are reported for Asia-Pacific and North America, which makes the price even more non-transparent. Likewise, the "Methodology for Fatty Acids" does not explain the procedure how ICIS obtains the relevant prices from the surveyed market participants. The "General Methodology" gives also very little detail on the procedure for contract prices, as it only requires confirmation of "*at least two agreements between recognized contract partners of significant size*", without further specification of these terms. Thus, it is not comprehensible to us if and how ICIS ensures that the prices are obtained from reliable sources and whether they reflect the real market situation. Moreover, ICIS gives no detailed illustration of the calculation method, with which the finally reported price ranges are determined. It would be necessary to have more details, e.g. about the surveyed market participants and the level of discretion used by the ICIS price reporters to evaluate the prices in case of missing transaction confirmations. On these topics, the "Methodology for Fatty Acids" does not give any information at all and the "General Methodology" is quite vague. Again, the "General Methodology" does not further specify these requirements. Therefore, both the "General Methodology" and the special "Methodology for Fatty Acids" are very non-transparent and moreover, they do not offer an adequate possibility of supervision.

Beside this, it has to be considered by ICIS that there is a significant risk that market participants who report to ICIS might misuse the ICIS methodologies and system to keep the price on a high level. This makes real competition between those market participants at least from our perspective quite questionable.

In our opinion, a reliable price assessment for contract prices can only be achieved with a price calculation that is purely based on real net-transaction-prices after deduction of rebates and discounts. Otherwise, the reported contract prices do not reflect the real market situation and especially smaller suppliers and consumers are left in the dark with regard to the granted rebates and thus the existent price level in the market.

Consequently, we are of the opinion that ICIS should adjust its methodologies accordingly in order to provide clear guidelines for the price assessment procedure, based on real net-transaction-prices and offering an adequate possibility of supervision.

- 2. Are there alternative methodologies you would like ICIS to consider? If so, please describe these methodologies and their strengths and weaknesses as mechanisms for measuring physical market value. Please explain their strengths and weaknesses relative to current methodology.**

N/A

- 3. How well do the ICIS price assessments published in this report serve your business? Are there any additional prices you would like to see?**

The prices reported by ICIS present only price levels from past periods as well as for the present situation. It would be useful if ICIS could additionally report a forecast of the price level that is expected for the next period.

Furthermore, it would be interesting to get information on whether vegetable based fatty acids or tallow based fatty acids are more cost effective.

- 4. Is there any other information that you believe would be helpful to ICIS in its review of this methodology? If so, please give details.**

N/A

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