Darling Ingredients, Inc.
To Host Biofuels LCFS (Low Carbon Fuel Standard) Conference Call
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+++ presentation

Operator^ Good morning, everyone, and welcome to the Darling Ingredients, Inc., conference call to present Darling's view on the biofuel industry. With us today are Mr. Randall Stuewe, Chairman and Chief Executive Officer of Darling Ingredients, and Mr. John Bullock, Executive Vice President, North American Specialty Businesses and Chief Strategy Officer.

After the speakers' opening remarks, there will be a question-and-answer period, and instructions to ask a question will be given at that time.

This call is being recorded and your participation implies consent to our recording this call. If you do not agree to these terms, simply drop off the line. (Operator Instructions)

I would now like to turn the call over to Melissa Gaither, Vice President, Investor Relations and Global Communications. Please go ahead.

Melissa Gaither^ Thank you, Andrew. Good morning, and thank you for joining us today. To augment management's formal presentation, please refer to the presentation section of our IR website for the biofuels slide deck.

This conference call will contain forward-looking statements regarding Darling Ingredients' business and factors that may impact its business opportunities and anticipated results of operations.

Please bear in mind that this forward-looking information is subject to many risks and uncertainties, which could cause actual results to differ materially from the Company's expectations. Many of these risks and uncertainties are described in Darling's annual report on Form 10-K for the year ending January 2nd, 2016, in the biofuels slide deck located on our website, and in our other filings with the SEC.

Forward-looking statements on this conference call are based on our current expectations and beliefs, and we do not undertake any duty to update any of the forward-looking statements made in this conference call or otherwise.

With that, I'd like to turn the call over to Randy.

Randall Stuewe^ Thanks, Melissa. Good morning everybody, and thanks for joining us. Recent developments within the global biofuels industry have raised some questions and caused confusion, especially pertaining to the Low Carbon Fuel Standard program within California.

Biofuels remain an important component of Darling's global platform. Not only are biofuels made from our inputs positive for the environment and global energy, but they also play a critical role in helping us manage our global risk profile and manage our margins.

Today I'd like to introduce John Bullock, our Executive Vice President of North American Specialty Businesses and my Chief Strategy Officer and also our resident expert on biofuels, who has been instrumental to Darling's investments in biofuels and government programs that surround the industry today.

After John completes his presentation, we'll open it up to questions and answers and try to address any issues you may have. John.

John Bullock^ Thank you, Randy. Let's begin today's call by reviewing the recent developments for each of the three government programs which impact biomass based diesel margins.

We have traditionally talked about these programs by discussing the two federal programs and then talking about the state provincial LCFS programs.

I would like to address these in a slightly different fashion today. Rather than thinking of the incentive programs as to whether they are federal or state, let's look at the RFS and LCFS programs together, as they both dictate usage of biomass based diesel.

RFS2 and LCFS share one important element. They create the demand for biomass based diesel. These programs are the foundation on which Darling's biofuel investments are based.

While they are two of the three forms of grain premium provided by the various government programs, the biodiesel tax credit being the third, we consider the mandates as being the foundation of margins for both Diamond and our other biodiesel investments.

When the biodiesel tax credit is in effect, it aids in reducing the premiums required by the other two programs to incent the production required to meet the mandates. But the tax credit does not create the demand for the product.

In the call today, we are going to focus on the two programs which create the demand. As you all know, the tax credit was extended last year as part of the extenders package and is effective through 2016.

Let's defer the drama that normally goes with when that issue will be taken up, as it would simply be speculation at this time.

Fortunately, in the last half of 2015, we saw both the RFS2 and LCFS programs make substantial strides forward. As you are all aware, in May of this year, the EPA released its proposed rule for both the Total Renewable Fuel Mandate and the Total Advanced Biofuel Mandate for 2017, as well as the Biomass Based Diesel Mandate for 2018.

As we have seen in the past, the EPA continued its approach of increasing the mandates. Specifically, the 2017 Total Biofuel Mandate was increased by 690 million RINs over the 2016 mandate. And the Total Advanced Biofuel Mandate was increased by 390 million RINs over the 2016 mandate.

As you recall from our earlier discussions, RFS2 mandates are nested. What that means for biomass based diesel is that our product can fulfill any of the buckets within RFS2, except for cellulosic. This is a subtle and often overlooked advantage enjoyed by biomass based diesel because of the nesting nature of the RFS mandates.

If there is a shortage of total renewable fuel RINs, D6 RINs, as they are called, biomass based diesel can fulfill it. Similarly, if there is a shortage of total advanced biofuel RINs, D5 RINs, biomass based diesel can fulfill it. And of course, if there is a shortage of biomass based diesel RINs, D4 RINs, biomass based diesel can fulfill that.

Since we already know what the Biomass Based Diesel Final Volume Mandate for 2017, is going to be two billion gallons, we know we have a complete picture, assuming the EPA finalizes their rule at the proposed levels of what 2017 will look like.

If the final rule published later this year, probably in November, does not alter the mandated levels in the proposed rule, that would mean we would have a mandate of two billion gallons for biomass based diesel and a potential for biomass based diesel to supply an additional 380 million gallons, 588 million RINs, to fulfill the Total Advanced Biofuel Mandate of 4 billion RINs, less the 312 million RINs specifically allocated to cellulosic.

The only other field which has potential to supply any significant portion of the Total Advanced Biofuel Mandate would be sugar-based ethanol. It may also be possible that some of the RINs generated for the Total Advanced Biofuel bucket are used to supply the Total Renewable Fuel Mandate. We have seen this in the past when imported biomass

based diesel that could not qualify as advanced biofuel fulfilled the Renewable Fuel Mandate.

The EPA also proposed establishing the 2018 Biomass Based Diesel Mandate of 2.1 billion gallons, which is an increase of 100 million gallons over the 2017 mandate, which was the same as the increase from 2016 to 2017.

The good news is the EPA is continuing to increase all of the categories of the RFS that create demand for biomass based diesel. We applaud them for moving in the right direction.

However, as you will see when we issue our formal comments to the proposed rule, we believe the EPA could have been and should have been more aggressive in their expansion of both biomass based diesel and total advanced biofuels.

Specifically, we believe that a reasoned analysis for 2017, would increase the Total Advanced Biofuel Mandates to in excess of 4.5 billion RINs and a subsequent increase in the total volume of Renewable Fuel Mandate to in excess of 19.3 billion RINs.

We also believe the EPA should set the 2018 Biomass Based Diesel Mandate at 2.3 billion gallons or greater.

The EPA has made it very clear that they see the directive from Congress as being to keep the RFS2 volumes aspirational. The EPA has not followed the target specified by Congress regarding the mandates through 2022. They have used the waiver authority provided by the statute to reduce the mandate, primarily because cellulosic has been slower to develop than was envisioned when the enabling legislation was passed.

That leaves EPA in the business of attempting to forecast supply and demand for each of the four categories of RFS2. That is a daunting task, since several of the categories, including biomass based diesel are impacted by both imports and exports.

Darling's perspective is the EPA should always be forecasting in such a manner that RINs stay firm because that is what drives production to more biofuel, and that was the intended purpose of the law passed by Congress.

Everyone has turned into a junior economist trying to figure out the supply and demand of each type of RIN. Frankly, it would be easier and probably less stressful if we all just a Rubik's cube.

At the end of the day, as long as the EPA continues to increase the RFS2 mandates, we believe that with our competitive positioning of Diamond Green Diesel we will have a solid foundation to build upon.

We will continue to push EPA to remain aspirational, but the simple reality is they are raising the mandated volumes and that is the most important fact.

Now let's turn to the Low Carbon Fuel Standard, LCFS. This is a relatively new and exciting carbon reducing policy being implemented by California and other states in the United States and several provinces in Canada.

For purposes of this call, I will focus on the California LCFS. The other LCFS-type programs being introduced in North America follow the basic concept of the California policy. And while there are some differences, it is probably best to focus on California, as the California Air Resource Board, CARB, has been the leader in the development of the concept. And California is, by far, the largest geography to implement the program in North America. In fact, California represents almost 7% of the fuel consumption in the United States.

I will like to explain our view of the LCFS program by comparing the similarities and differences between the LCFS and RFS2. The most important similarity between the LCFS and RFS is that they both create demand for biomass based diesel.

In addition, the two programs are very similar in that they both mandate carbon reducing fuels, primarily transportation fuels, use market-based pricing to determine the value of the various biofuels, and neither has a sunset provision.

Finally, both the LCFS and RFS2 recognize that biomass based diesel made from waste oils reduce greenhouse gas emissions more than biomass based diesel made from crop-based vegetable oils.

In both programs, the types of feedstock used to create the biofuel is the most important element in determining how much greenhouse gas reduction is achieved.

However, after these similarities, the LCFS and RFS2, from my view, differ in both substance and optics. The first difference and the most obvious one is that they are totally separate programs. One is administered by the Environmental Protection Agency, the EPA, with jurisdiction over the entire United States, while the other is administrated by CARB and impacts only California.

That means an obligated party has to fulfill both the national mandate created by RFS2 and the California mandate if they operate in California. Two programs and two premiums. If you are an obligated party marketing outside of California, then you only need to comply with the RFS2 mandate.

Biomass based diesel used in LCFS markets will have the highest green premium because of the addition of the LCFS premium to the RFS2 premium.

There is also an optical difference relating to how the value of the RINs under RFS2 and the credits under LCFS are reported. Both the EPA and CARB are incenting the use of biofuels, which reduce lifecycle greenhouse gas emissions. Each program uses pathways

to determine how much reduction is associated with each type of biofuel, compared to the petroleum-based fuel it is replacing.

The EPA reports the greenhouse gas emission reductions as a percentage. As an example, biodiesel and renewable diesel using used cooking oil as a feedstock has a pathway that reflects a greenhouse gas reduction of slightly over 85%, while vegetable oil-based biodiesel would have a reduction in the mid- to high 50% range.

CARB on the other hand, reports out the greenhouse gas lifecycle emission reduction using the concept of carbon intensity reduction. Under the CARB system, the lower the carbon intensity, the greater the greenhouse gas lifecycle reduction.

As an example, we believe that CARB will utilize a CI score of approximately 22 for renewable diesel made from used cooking oil, while the CI score for biodiesel made from soy oil will be about 54.

The funny thing is that both CARB and EPA are saying the same thing. Biomass based diesel made from waste oil reduces greenhouse gas emissions more than biomass based diesel made from crops in both programs. That is good news for Darling, as we produced the types of fats which create the greatest amount of greenhouse gas reduction, and we are invested in the machines that can turn those fats into the highest value biofuels.

What is even better news for Darling is how the LCFS treats low CI biomass based diesel. Remember that under the RFS2 concept, once a biofuel has met the minimum greenhouse gas reduction required for that type of fuel, then a gallon of fuel produced by a registered producer or importer qualifies for that category of RINs.

The RINs for a gallon of biodiesel, which reduce greenhouse gas emissions by 85% receives exactly the same value as the RINs for a gallon of biodiesel, which only reduces greenhouse gas emissions by [60%], because both reduce greenhouse gas emissions by more than 50%, which is the required minimum threshold.

If the market was $0.80 a gallon for D4 biomass based RINs, if you were a biodiesel producer, the value of the RIN generated for biodiesel with a greenhouse reduction of 50% or more would be $0.80 per gallon multiplied by the energy adjustment factor of 1.5 times. For renewable diesel, the same $0.80 a gallon would be multiplied by 1.7 times.

The key is once you have achieved the minimum greenhouse gas reduction threshold, all the types of fuel within the specified RFS2 bucket have the same RINs value, with the only difference being the energy adjustment of 1.5 or 1.7.

The LCFS handles this distinction very differently. Under the LCFS, a biomass based diesel, which has a CI score of 22, would receive a substantially greater value for the credit than would a biomass based diesel which has a CI score of 54. That means under LCFS, lower CI biomass based diesel is worth more than higher CI biomass based diesel.

The LCFS rewards the producer of the biofuel, which reduces greenhouse emissions by the most, while RFS2 simply creates a minimum threshold of greenhouse gas reductions and then treats all participants within each specified bucket equally.

So how do we figure out how much of a premium per gallon of biofuel will receive under the LCFS? Well, that is a little confusing because the market for LCFS credits is reported in dollars per metric ton and not in dollars per gallon like the RINs market. I do not intend to go through the math on how to convert a ton of CI into a gallon of biofuel.

At the end of the day, although it is not totally accurate, the easiest way to think of how the credit converts to Darling's UCO and tallow is that $1 per ton equals $0.01 per gallon. UCO is worth a little bit more and animal fats a little bit less.

I should note that each individual plant that makes qualifying fuel for the LCFS has its own unique pathway that takes into consideration not only the type of feedstock it uses but where it sources its feedstock from, how energy efficient it is in converting the feedstock to fuel, and the energy utilized in transporting the fuel to the California market.

That means $1 per metric ton or $0.01 per gallon of biomass based diesel is simply a ballpark average. But for purposes of looking from the outside, in my view, it is a good way to think about it.

I should note that CARB from time to time undertakes to review the various types of feedstocks and has and will adjust the CI scores for various types of feedstocks.

However, through all of these changes, the types of fats that Darling produces, which, in turn, are the types of fats used by Diamond and our biodiesel plants will have the highest credit value, because they reduce greenhouse emissions by the most.

So what does that mean in terms of dollars per gallon for Diamond or our biodiesel plants? The calculation is fairly easy, at least in general terms. If you take the current market of $110 per ton, that means a gallon of renewable diesel or biodiesel, there is only a minor difference in the CI scores in general between the two, consumed in California would have an LCFS premium of $1.10 per gallon.

In order to figure out how much of that gets back to the biodiesel producer, you have to determine two things. The first is how much freight it takes to move the biofuel to California. Diamond, as an example, can move via water, and by the time our expansion is complete, if not substantially sooner, via rail.

Adding the rail capability to Norco, the location of Diamond Green Diesel, is critical because vessel freight to California is under the Jones Act, which means the freight is higher than when shipping to non-port US ports like Canada.

In rough terms, you can figure between $0.30 and $0.50 a gallon freight from Diamond to California. So the math for the first half is then pretty simple. Take the current LCFS per

gallon credit of $1.10 and subtract off $0.40 a gallon. That means in today's market if Diamond were to receive 100% of the value of the LCFS credit, the value of the credit back to Diamond would be approximately $0.70 per gallon.

The second part of the value calculation is determined by how much of the credit is shared by the producer with the blender. Frankly, and that is in a state of flux, as this is a developing market.

My view, and this probably not shock anyone, is that I believe the producer should received the lion's share of that split. The reality is the market is going to determine this and the answer is going to take some time to figure out.

However, what we do know is that renewable diesel is in great demand in all of the LCFS markets because it is a pure hydrocarbon and can easily be placed into the existing product distribution system. I believe the demand for the produce will drive the majority of the share of the credit to the renewable diesel producer, but time will tell.

What is not uncertain, however, under the LCFS is the targets which CARB has set for greenhouse gas reduction in California. They are aggressive and they will be ramping up rapidly beginning next year.

Under the LCFS, remember that carbon reduction means carbon intensity reduction. The target for carbon intensity reduction is 2% for 2016, 3.5% for 2017, 5% for 2018, 7.5% for 2019, and 10% for 2020.

That means that the carbon intensity reduction required by the end of 2020 will be five times the carbon intensity reduction required at the end of 2016. As many of you know, CARB was delayed in the implementation of the LCFS by some legal issues which were resolved.

During that time, obligated parties were allowed to bank credits. Indeed, many of the obligated parties have done so. LCFS credits once created never die, which is another difference to the RFS2 where our RINs go stale after a period of time.

That means that a 2% Carbon Intensity Mandate in 2016, there's actually a surplus of bank credits. However, as the carbon intensity mandates rapidly increase over the next few years, unless there is a substantial increase in credits available, the market will absorb those excess credits and then have to live off the credits being produced at the time.

The current supply of credits is why, in our opinion, the LCFS market is not higher than it currently is. Everyone is looking into their crystal ball trying to figure out the point at which the surplus is used up and the market has to live off of the credits being produced at the time.

Today there is no shortage of credits to fulfill today's mandates. The question is, how quickly will that change?

The fact that the market is currently at $110 a ton, despite their being a current surplus of credits, we believe tells us that folks are wanting to continue to bank credits. If they believe that there was always going to be an adequate supply of credits produced to meet the mandates at that time, they would have no reason to want to bank credits today.

Given the rapidly rising carbon intensity reduction targets, it is understandable why all impacted parties would be focused on this issue.

The other question that I know Melissa gets asked a lot is, how do we know how much demand for biomass based diesel and renewable diesel will be required in the upcoming years? In other words, how do we translate the carbon intensity reduction target of 10% in 2020, into a specific number of gallons of biodiesel and renewable diesel?

The short answer is you should remember where you put that Rubik's cube. Unlike RFS2 where the EPA specifies each year that the upcoming mandates for each of the four categories of biodiesel are going to be, the LCFS only creates a carbon intensity reduction target and then approves pathways for various types of energy products used in transportation fuels or which displace transportation fuels.

Under RFS2, you cannot fulfill the Biomass Based Diesel Mandate with ethanol, either sugar or corn. Nor can you fulfill the Total Advanced Biofuel Mandate with corn ethanol.

Under the LCFS, you can obtain a pathway from CARB for any form of energy product which supplants petroleum-based fuel. The obligated parties have their obligation created by the volume of fuel they market for use in the state of California, and the total obligation is established combining all types of traditional petroleum fuel they market in the state of California.

That means that a broad variety of alternative energy sources ranging from corn, sugar, cellulosic ethanol, biodiesel, renewable diesel, electricity for LDVs, HDV, and rail, conventional and renewable natural gas and hydrogen, can all be used to meet the obligation so long as they are displacing petroleum transportation fuels.

Each will have its own unique pathway that will take into consideration the feedstock used to make the petroleum fuel replacement, the energy used to transport both the feedstock to the production plant, and the finished product to its usage point in California and the energy used in the conversion of the feedstock to finished product.

If your renewable fuel substitute has a lower CI score, then an obligated party has to buy less of that product than a product with a higher CI score to meet the obligation. That is why, in part, lower CI products receive a greater premium for the same dollars per market price.

Here lies yet another of the subtle points of the LCFS program. Since the LCFS programs only deal with fuel used within a specific geography like California, that means that the biofuel has to be splashed within the state, which should result in obligated parties wanting to meet their obligations while splashing the least amount of gallons. And that means low CI biofuel allows the marketplace to reach its goal more efficiently.

At the current credit market price of $110 a ton, that results in a CI advantage of approximately $0.46 per gallon for used cooking oil based renewable diesel or biodiesel over soybean based biodiesel. At $200 a ton, that advantage will be $0.83 per gallon.

What makes Darling believe that the fields like renewable diesel and biodiesel will be the renewable energy products which will fulfill the LCFS mandates or at least largely help to fulfill them?

The answer lies in part in the rapidly increasing mandates. Increasing the target by fivefold in four years means there is going to be a lot of credits required. The other reason Darling believes renewable diesel or biodiesel will be key contributors to fulfilling the LCFS mandates is simply because of our low CI scores, and we are available with limited barriers to greater use.

Many of the [potential] products which can be used to meet the mandates are either not yet technologically ready to supply many credits or have some form of limitation on their use above certain levels. Ethanol would be an example due to the blend wall.

We are expanding and improving Diamond and will be ramping up both its capacity and its logistic capability at just the time that the California market, as well as the other LCFS markets will be calling for more renewable diesel.

I suspect that many of you are trying to figure out how high the market could go for credits in the LCFS markets. As you might imagine, we are fairly curious about that ourselves.

The reality is that no one really knows. However, when you step back and look at it from a simple commonsense perspective, it is possible at least to start to get some sense of where we might be heading.

We know that the carbon intensity reduction is scheduled to ramp up quickly in the next few years. We also have some indication that CARB is interested in continuing to drive the increased usage of low CI, low particulate emission fuels.

As many of you are aware, there are initiatives being discussed in California that would target a 50 percent usage of diesel fuel substitutes by the year 2030. That had led to much discussion about whether the LCFS contains a cap at $200 per metric ton.

Our view is that the so-called $200 ton cap is really a soft cap, and that if market conditions were right, it would be possible for the market to exceed the $200 ton cap.

However, commonsense also tells us that it is unlikely that if the market moves much over $200 a ton, that CARB would stand by and let prices get out of control. It looks to us like CARB has the authority to manage the market through its regulatory powers, and we are not counting on the market ever being $200 a ton for any sustained period of time.

To us, the more interesting aspect of the $200 a ton cap is that by including it in the current role, it establishes a signal to the market of what might be an acceptable level for credits. While I grant you that this is purely a view from the cheap seats, we look at the inclusion in the role of the $200 cap as a good thing. It provides guidance to the market of what is acceptable in terms of credit pricing.

If the market moves to $200 a ton, that would mean renewable diesel from used cooking oil, animals fats, distillers corn oil, would have a credit value per gallon of approximately $2. That would represent a substantial additional green premium to supplement the RFS2 RINs and the federal tax credit if renewed.

Obviously there is a lot of new in the LCFS program and there will be, just as there is with all these programs, a lot of twists and turns. However, we are very excited about the potential that the LCFS-type programs combined with the RFS2 mandates means for Darling.

Given what we view as an increasing demand being driven not only by the LCFS in California but programs already in place in British Columbia and other programs coming online in the next couple of years in Oregon and possibly Ontario, Quebec, and Washington state, it seemed to us that expanding Diamond was a natural step to take.

Not only has our experienced team at Diamond Green Diesel established a sustained record of excellent operations, but in our view, Diamond is well located to economically service the various LCFS markets.

Now, that may seem an odd statement considering that Diamond is located in the Gulf of the United States and all of the LCFS activities in North America are occurring on the coast. From a feedstock sourcing perspective, Diamond, which will utilize, once expanded, almost 18% of all waste oils produced in the US. Its position in the natural movement lanes as the rail and water infrastructure for a large percentage of US agriculture is based on movements from the interior of the US to the Gulf.

Since the LCFS markets are popping up on both coasts in North America, Diamond Green Diesel is well positioned to swing to where the market will pay the most.

Once we have the rail load-out capability, Diamond will have the ability to move its product by the cheapest form of transport, whether that be via rail or water. In addition,

water service to the Canadian markets do not require Jones Act freight, which means our transport costs are very low to these markets.

Remember, we will retain all of our direct pipeline capability in the event that access to the LCFS markets becomes viable through them.

I should note that we would be moving our renewable diesel to the west coast via pipeline now, but there is no product pipeline which connects the west coast to the rest of the United States. That means that while Diamond Green Diesel will not be moving its product to the west coast via pipeline, neither will anyone else.

Bottom line is the combination of RFS2 with the rapidly expanding LCFS markets creates opportunity for us in both our biofuels businesses and our base businesses. As we have all seen, these programs have their ups and downs, and I suspect it will continue to be that way.

However, the simple fact is that both the feedstocks and the processes that produce the types of biofuels, which are in the greatest demand and receive the greatest premiums under these programs are core Darling activities.

We continue to be focused on our footprint in both the biofuel segment and on building our core rendering activities that feed into these markets.

Finally, we should all remember that North America is not the only part of the world that has fuel mandates which impact Darling. Europe is a particular interest, as it has the highest consumption of biodiesel in the world, with the European Union consuming almost 3.5 billion gallons annually.

As you know, Darling has a substantial rendering platform in Europe which produces large volumes of fats. Today, the biofuels markets are a key demand sector for Darling's European operations. European biofuel policy is also going through some changes that are potentially beneficial to Darling.

Specifically, the EU has limited the growth of crop-based biofuels to 7% of the 10% target established for 2020, and they are attempting to promote both advanced biofuels, as well as second generation biofuels. These are the types of [caps] produced by Darling, and they fit into both categories.

Unfortunately, although it seems almost unimaginable, EU biofuel policy is much more complex and much more fragmented than North America's biofuel policy. As a result, I do not want to go into great detail on today's call, but I thought it should be noted that the impact to biofuels is not simply isolated to our North American operations. Randy?

Randall Stuewe^ Thanks, John. And with that, let's go ahead and open it up to Q&A. John and I will attempt to answer the questions.

+++ q-and-a

Operator^ We will now begin the question-and-answer session. (Operator Instructions) At this time, we will pause momentarily to assemble our roster. Adam Samuelson of Goldman Sachs.

Randall Stuewe^ Really appreciate all the detail that you provided. John, maybe to go back to the RFS2 briefly, I would like to get your thoughts on the RIN stocks where they stand at and they started the year of 2016, and where they could end at the end of this year. I think the EPA and their rulemaking did not assume any significant drawdown, doesn't seem like we're breaching the blend wall, so that seems ambitious based on the level of advanced blending that we've seen to date, but would love to get thoughts.

John Bullock^ Yes. Clearly, I think the gist of how the EPA is doing this [is] they want to remain with a cushion. I think it was like 1.7 billion RINs that they had in inventory at the beginning of this year. And the proposed rule, really they're focusing it to try to not change anything.

So their goal is to keep, it sounds to me like a cushion underneath the market. In case we have a market hiccup, they do not want to see RINs prices spiking, which, quite frankly, isn't good for any of us in the industry when that occurs.

Now you're asking me the junior economist question of whether or not I think RINs are going to be tight for the balance of 2016. It is early in the year. There are a lot of moving pieces on this.

It looks like, and you can see the market is behaving this way in relationship to the RINs, that the EPA has done a pretty good job with their supply-and-demand forecasting for RINs for this year. It seems like the market's fairly stable in the $0.80 range. Last few days it's gone up a little bit, but looks like it's fairly stable in that type of range.

And given as early as it is in the year here, Adam, I would tell you that, I mean, it looks to me like supply and demand is fairly well balanced here. I don't see a big run up on RINs and I don't see RINs [going] a lot on the downside. But we're four or five months into this thing. We'll be a lot smarter in another four or five months.

Adam Samuelson^ That's helpful. And then maybe just on Diamond Green on the rail loud-out, you alluded to potentially getting that capability sooner. Can you talk about kind of where you might be in that process, the level of capital investment that it takes to get there and kind of timing that we can think about to maybe start capturing some of that LCFS premium down at the plant?

John Bullock^ Well, we are capturing some of the LCFS premium today, as we are shipping not only to California, but other LCFS markets out of Diamond.

As to how soon the rail will be up and online, I don't know yet. I have a meeting actually tomorrow at Diamond to discuss that very issue. My preference would be it would be tomorrow, but I suspect it will probably be a few months down the line.

Adam Samuelson^ Got it. Okay. That's very helpful. I'll pass it along.

Operator^ Dan Mannes of Avondale Partners.

Dan Mannes^ Appreciate you guys holding the call. A couple quick follow-ups. First, as it relates to Diamond Green, can you maybe remind us what the current capabilities are for shipping to California and how that ramps from now until the expansion's complete, I guess in 2018?

John Bullock^ Well, today we have water capability to move to California. And then we can transfer to offsite rail locations and move via rail. Obviously, there's an incremental expense associated with doing that.

So then the question is getting the direct rail capability out of Diamond. And as I just said, that's several months away, is my belief at this point in time. But I have no firm timeline on that because I've not sat down with them and talked about that specifically. I'm heading there tomorrow to do that.

Dan Mannes^ Yes. Sorry. I was asking actually about your contractual obligations [otherwise] and what amount would be available, logistics permitting.

John Bullock^ Yes, I think the -- all of our [existing], as you know, when we started out Diamond Green Diesel, we had most of our volume sold out via pipeline contracts. And quite frankly, over the first three years of our operation, I would tell you that I think our commercial team down there made a very wise decision when they did that.

Those contracts all expire at the end of 2017. So we have total freedom beginning in 2018, to market any market we want to go to.

We have, because Diamond has ramped up from 136 million gallons to 160 million gallons, we obviously have more free gallons to sell to the LCFS market now than we've had in the past. And in addition to that, I think we work with all of our customers to try to figure out where the right place to put these volumes are. And we continue to work on trying to move as many of these gallons and convert pipeline contracts into LCFS contracts. And our team's had some very good success on that so far, and they continue to work on it.

I don't want to get into any details on percentages and so forth, because that would be unfair to our marketing efforts and relationship to the renewable diesel.

But we are actively engaged in that exercise and are having some success. So I would expect we would transition more to the LCFS market as we move through the last half of 2016 and into 2017. And then by 2018, we'll be totally there.

Dan Mannes^ Okay. And then if you can pull out your Rubik's cube or Magic 8 ball or whatever you want to use, you talked about potential demand from California, it's tough to assess. But it was roughly a 300-million-gallon biomass based diesel market in 2015 based on CARB numbers.

If you look out with the 10% CI reduction in 2020, even if you don't have a major need to the gasoline side, can you give any thoughts just in terms of the potential market?

And then secondarily, some of the advantages of renewable diesel versus biodiesel for selling into that market.

John Bullock^ Yes. I think there's been a lot of different people with a lot of different forecasts on how much of that carbon intensity is going to be taken by biomass based diesel. And certainly today, I think you could say biomass based diesel has probably been the largest component of building up that surplus or credits that's actually been out there.

I will tell you that part of my view of what CARB's trying to do is they want the market to incent towards as many different alternatives as they possibly can find. And I think that's why I look at the $200 a ton. They're prepared to sit back and let the market try to find alternatives.

As you sit here today and look at it, it certainly looks like renewable diesel and biodiesel are going to be key component factors towards meeting the initial surge towards that 10% over the next four years.

Now, biodiesel has some constraints because of labeling and then also because of the alternative diesel fuel regulation which CARB put in place to deal with the NOx issue.

So there is some limitation on exactly how much additional biodiesel can move into California, although, I think there's certainly room to move above what it is today, and by another 100 million, 150 million gallons maybe.

Renewable diesel, from our perspective, and this is why we're excited about Diamond, we see it as having a pretty clear path to being a significant contributor to reducing carbon intensity in California, plus, it has the additional advantage, just as biodiesel does, of substantially reducing particulate emissions. And both of those are highlighted items from the standpoint of the California Air Resource Board, as well as the governor's office.

So I think you're going to see a lot more. I don't want to give you a number because I'm not smart enough to know what that number's going to be. But it looks like we're well positioned to supply.

Dan Mannes^ Got it. And my final question, if you'll indulge me, as it relates to supply/demand of feedstock, I mean, here (inaudible) has such an attractive CI score, vis-à-vis, both [SBO] and even fats, can you talk maybe about this potential supply/demand imbalance on UCO, just given the potential demand for California biofuels?

John Bullock^ Yes. If we were only able to use used cooking oil at Diamond Green Diesel, I might be concerned about that. But the fact of the matter is we've built Diamond so that it can use whatever waste oil is out there to be able to convert.

So if used cooking oil gets extremely tight, and it may well, as a result of all this, we'll simply use more animal fats or corn oil or whatever else, poultry fats, tallows, whatever else is in the marketplace. And we spent a great deal of time as we looked at the expansion of Diamond, especially once we figured out that we were going to make it a little bigger than 220 million or 230 million gallons, and whether or not that extra fat was available in the marketplace.

And when we believe the combination of Diamond having feedstock flexibility, along with what is some pretty rapid expansion slaughter volumes occurring in the poultry and the pork business and yield improvements continuing with corn distillers oil, should provide an adequate supply of incremental volume for us to be able to run Diamond at 275 or more million gallons.

Dan Mannes^ Sorry. I was actually asking more about the collateral benefit to Darling's core business, the potential uplift in demand for those products.

John Bullock^ Well, I think that it's not only used cooking oil, it's also -- I mean, if the demand is as good as everybody thinks it might be out of the LCFS markets, this is going to be not only associated with used cooking oil, this also helps for animal fats, too. Now, much of that we pass on to our raw material suppliers.

But there's no doubt about it that higher prices are better for Darling than lower prices.

Dan Mannes^ Got it. Thanks a lot. Appreciate you answering all my questions.

Operator^ Chip Moore of Canaccord.

Chip Moore^ Appreciate all the color here this morning. As you start to add some capabilities for LCFS, how are you thinking about balancing risk profile there? Any potential changes we could see in that program, whether it's CI value suggesting or anything like that? How are you thinking about that?

John Bullock^ Well, as I said, the CI values will adjust. I mean, CARB does an excellent job of monitoring that and trying to truly bring the fuels to California that do the best in terms of reducing carbon emissions.

So I think they probably will adjust around from time to time. At the end of the day, however, I know of no situation which is going to take used cooking oil and animal fats from kind of the top of the list as the best carbon emission reducing feedstocks that are out there.

So we'll roll with the punches as we kind of go through the various machinations of the program. But we just think the type of feedstocks that we're feeding into the machines that we turn into biofuels will, at the end of the day, be the ones that receive the greatest credit.

So it can come and go, and we're okay.

Chip Moore^ Yes. No, that's fair. And clearly, a lot of good things on the horizon. I guess just following up on Dan's question there, maybe you can take a step back and talk a little bit more broadly about how the biofuels business in general helps to mitigate risk for the platform? Thanks, guys.

Randall Stuewe^ No, and I think that's a fair question, Chip. I mean, what we -- we always, if you rewind the movie, we always made the investment pieces on Diamond Green. And the same extent up in Canada on our Rothsay biodiesel plant has the ability to convert [vats] into a value-added product.

And so really, at the end of the day, you've got a perfect storm of really good things here in the sense that you now have -- we have the number one position in used cooking oil, which we know has the most commodity exposure within our portfolio, that the prices have moved up, so that translates into better earnings, and then huge demand for it and new demand, additional demand coming on from Diamond Green Diesel.

So at the end of the day, the way we're looking at the LCFS and biofuel programs in general, is that they were favorable before because they created new demand for our products that could either only go into animal feed or to be exported for basically animal feed around the world, now into fuel and now into very high value or carbon intense fuels that they're going to have better value than the typical RFS.

So overall, from our perspective, it's nothing but positive here.

Operator^ Was there a follow-up, Mr. Moore?

Chip Moore^ Yes, all set. Thanks a lot.

Operator^ Thank you. Heather Jones of BB&T Capital Markets.

Unidentified Participant^ This is actually [Omar] filling in for Heather. I guess I'll go back to just a quick question here on biodiesel production. It's been robust so far this year.

What's your guys' view on the trajectory for the rest of the year? How do you see the supply side of the equation there playing out?

John Bullock^ Yes. As I mentioned earlier, it is early in the year to be trying to figure out where we're going to end up at the end of the year. I've seen various reports out there and there are people that calculate the numbers in various ways as to whether or not we're going to be slightly over or slightly under on the amount of RINs that will be required to meet this year's mandate.

I think what the market tells us so far, as you look at the pricing in it, though, is that generally we've remained around this $0.80 number for a very sustained period of time, which, quite frankly, in the history of the RINs is pretty unique. We've usually seen a lot more volatility associated with it.

So I think the market believes right now that we're fairly well balanced between supply and demand RINs for this year. But we'll all get a lot smarter on that in the next three or four months.

Randall Stuewe^ Yes. This is Randy. Just to add to John, I think the other thing that people have to keep in mind is, is that if you look within the soy crushing industry, the soybean processing industry, crush margins are absolutely incredible and there's every incentive out there right now to push soybean oil through your vegetable oil refinery or biodiesel plant, as much as there's ever been in the history of that industry.

So that industry's running full. That's giving a few extra gallons that they can get through. And then the incentive to hit the LCFS markets is there. So if you can convert the low carbon intensity fuels, you're doing that too.

So I think it's showing that we're pretty well balanced right now. But as John was addressing is that the trajectory is the growth of the CI markets here in the next one to three years.

Unidentified Participant^ Absolutely, that makes a lot of sense. I really appreciate that. And switching to yellow grease, and pricing's been very strong so far this year. And can you just talk about just what new demand came online this year? Was it mostly due to the Geismar plant and the Beatrice, Nebraska plant? Can you guys just talk about how's that market and what's demand looking like?

John Bullock^ Yes. One of the things you always have to remember about the fats market is in terms of when compare it to like the corn and the soybean market, it's a very small market and so it has great volatility. We're obviously been fairly expensive now.

But as everybody -- five months ago in December of last year, we couldn't give the stuff away. So, I mean, it moves around pretty quickly.

I don't think that you can attribute anything that's happening to the value to just simply being isolated to one or two plants bringing product on.

You also have to remember that the corn price today is $0.75 to $0.85 a bushel higher than it was just a few months ago. So we've had the underlying fundamentals of all the use points for fats have improved. We've had the RINs holding steady. The diesel fuel market in December of last year was at $0.87 a gallon on the exchange, and today we sit at $1.52 or $1.53 a gallon. You have corn market $0.75 or $0.80 a gallon higher.

So the overall fundamentals in the marketplace for the pricing of fat have just generally improved. It's not just one or two plants.

Unidentified Participant^ Thank you, guys. And so basically any color there sort of on the demand side? In particular, how do you guys see that, I guess playing out for the rest of the year? Or is it too small of a market to just go ahead and put the, I guess the junior economist [bee] on it?

Randall Stuewe^ It's a little bit, I guess to help John here a little bit is, is that, clearly, the programs favor used cooking oil and second place comes animal fats. And so given your technology, whether you're Diamond Green Diesel or REG Geismar or a classic biodiesel plant, you're going to go after the best feedstock and the easiest feedstock and the lowest cost feedstock to convert. That should leave for very solid demand for used cooking oil for the balance of the year.

Additionally, you got to remember part of that gets exported to Europe under double [counting] programs. And so you've got a nice balance in that market. But what's more exciting about it is that you have coming on now with the carbon intensity programs incremental and new demand for that product, along with animal fat. So it's hard to get bearish.

Now, at the end of the day, if you would have asked me to bet that used cooking oil would have been parity with soybean oil, I probably would have taken the other side of that bet for a lot of money. So unchartered waters for this team here, but it's positive today and the future doesn't look much different right now.

Unidentified Participant^ Great. Thank you, guys. I'll pass it along.

Operator^ Ken Zaslow of BMO Capital Markets.

Ken Zaslow^ So a couple things. One is, you talked about the potential for the sugar-based ethanol being used, part of the mandate. So my question is, my first question is, the [dollar] biodiesel tax credit, do you think that it will be shifting to a producers' credit? And what are the odds of that?

John Bullock^ Ken, first of all, we don't know when they'll be dealing with the tax credit, whether it'll be this year or whether they'll be doing the retroactive thing next year. Nobody really knows.

There is an effort, I think by several parties out there, to push for a producers' tax credit. And I will tell you that generally when you get these types of programs in place, it's hard to get them to change in form and substance like that.

From our standpoint, we're prepared to accept either, whether it be a producer or a blender's tax credit, the most important thing from Darling's perspective is that we'd like to see the tax credit in place because it does help facilitate and keep the premiums down on the two other mandated use programs.

So there's a movement afoot on that. There's people that are talking about it. They pushed very hard last year to try to get it converted to a producers' tax credit for 2016, and it just didn't quite get there.

So it may or may not happen, I really can't tell you. If I were a betting man, I would say just because those programs don't change a lot, it probably won't. It probably stays as a blender's cash credit. But I could easily be wrong on that.

Ken Zaslow^ Okay. What is the timing and potential size of other LCFS markets?

John Bullock^ Oregon is -- well, British Columbia is online today and has been for a period of time now. Oregon, I believe is going to start to ramp up next year and should be fully in in 2018.

Ontario is ramping up, although I think they're probably hitting some short-term hiccups on that. So I'm not sure if that'll be 2017 or 2018, before they're actually online.

And then Quebec is still more in the concept stage, although they seem firmly committed to moving forward fairly quickly. But I would doubt we would see anything there before 2018, or maybe even a year or two later after that. And then --

Ken Zaslow^ Is there any more biodiesel or renewable diesel coming online that you expect from competitors?

John Bullock^ Well, there's a plant being built in Europe by [Totale], in southern Europe that will be coming online, I think in 2017. And obviously, [Nestay] announced expansions of their (inaudible) capacity over a period of time here. And we have a little bit of production in Spain now for the past couple three years. And then you have [Aniot] of Italy, but they've been up and running now for the last year or two.

So the new stuff coming online is really, I think our expansion, Nestay expansion, and then the Totale southern France operation.

Ken Zaslow^ And my last question, Randy, this is to you. Okay. You're having this conference call. What are you trying to tell us? I get that you're trying to tell us about the LCFS and the RFS. Are you trying to tell us that the outlook is looking better? worse? neutral?

Companies don't have earnings calls or calls to go through these type of clarifications without some sort of underlying implication. Can you talk about like what the underlying takeaway from this is in terms of your earnings outlook?

Randall Stuewe^ Yes. I think it's a fair question, Ken. And essentially what we're trying to address here is Melissa's phone has been ringing off the hooks by different investors and shareholders and potential shareholders. We've had one analyst write a paper out there that did a very nice job of setting the program out there.

And at the end of the day, we're just trying to help everybody understand the program that is developing out there and the potential [implications]. I wouldn't tell you that our crystal ball doesn't have a little bit of fog in it today, but nonetheless, this is what we've been trying to explain to people over the last six months, that under the scenarios that have been laid out both by the RFS growth, the global mandates that are happening in Europe, I know John touched on it. You got to remember that they're moving to a 10% blend there with 7% can only come from plant-based or 70% of that total. So 30% has to come from waste oils.

What you're seeing is global movement around the world towards these reduced carbon intense models or reduced greenhouse gas emission models that will be favorable for the Darling platform.

And as Melissa started to have calls with different shareholders, it became obvious to me that we needed to do a better job being transparent and open and trying to teach everyone what we see today, and let them make their own evaluations from there.

Ken Zaslow^ Great. I appreciate it.

Operator^ [Garrett Woobin] of Gates Capital.

Jeff Gates^ Yes, it's Jeff. Randy, can you talk about the scalable of Diamond Green Diesel? I know this capital expansion is going to be half the cost (inaudible) and I think you said of the prior one. And I'm just wondering if in three years, is that plant further scalable beyond that at some point? And would it be sort of the similar marginal capital costs to do that?

Randall Stuewe^ Jeff, I think, and John'll help me out here. I mean, what we know today is, is that we're in the final engineering and design of that plant for final cost estimate, which takes it to 18,000 barrels a day. And that gets you to that 275 million gallons.

I think from a geographic footprint, meaning the inbound logistics to it, it becomes about as big as you can get it today without doing some major, major modification.

So I think from 275, we'll say we're pretty close to the top, and if we decide to do something different, then you're back to green fielding or retrofitting something out there that we can locate.

So I think today, I don't know that we're looking anywhere beyond that. John, anything?

John Bullock^ No, I think that's fair. We may get some creep above 275. I mean, when we build Diamond originally at 136, we ended up, really with no change in the facility, being able to produce 160. So maybe we get a little bit of creep there, Jeff. But I think we're focused right now on just executing on getting to the 275 and doing a good job on that. Maybe there's something in the future, but we don't see it today.

Operator^ And was there a follow-up?

Jeff Gates^ No. Thank you.

Operator^ Thank you. This concludes our question-and-answer session. I would like to turn the conference back over to Randall Stuewe for any closing remarks.

Randall Stuewe^ Okay. Thanks, Andrew. Thanks again for joining us today. As you know, we release earnings, I think on August 11th right now, and look forward to an earnings call on August 12th, to share with you the progress and the updates of the effects of the programs here. Thanks a lot for joining us.

Operator^ The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.