

Biomass Market Update

Supply still strong

(RBCN) European wood pellet prices have edged up slightly in the third quarter ahead of the winter demand season, but ample supply has prevented more significant gains.

Industrial wood pellet prices were pegged at an average of €105/t (US\$124/t) CIF ARA, up €5 compared with the second quarter. ENplus A1 residential pellets were seen at a slim premium of around €3, according to an RBCN survey.

“Prices are very low. No one really wants any volume for the remainder of the year,” said a European biomass trader.

He said while there had been some recent trades at around €110/t CIF ARA/UK, for fourth-quarter material, a seller would be “lucky” to sell at €100/t at present. But he valued 2021 supplies at closer to €120/t.

“Buyers all have sufficient supply. But while consumption is pretty normal, the spot market is quite small, so if there is any weakness in demand, activity dries up,” he said.

Despite the limited demand, Russian wood pellet production in the first eight months of the year grew nearly 6% to 1.3m tonnes, according to state statistics service estimates, with virtually all destined for the export market.

“The only people who can maybe compete [at such low price levels] are the Russians. But not even they can make money at €100/t,” the trader said. But he noted Russian producers still have some inventories to sell, and were therefore continuing to offer some material to the market.

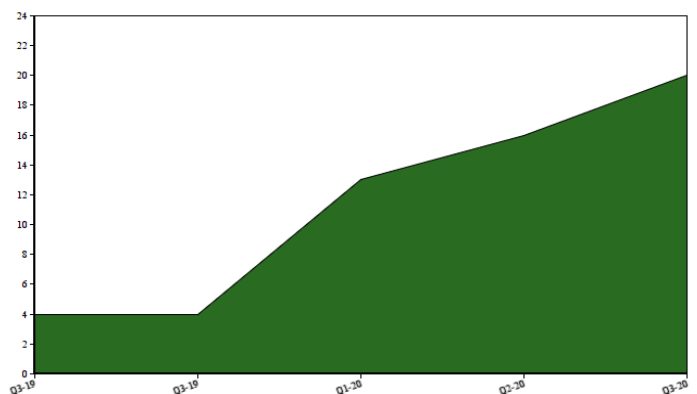
“The only thing that would change the situation, other than a big disruption on the supply side, is the weather,” he said.

He noted if the winter season proved to be severely cold, it

RBCN Wood Pellet Price and Stock assessments		
	End Q3 2020	Vs. Q2 2020
Industrial (I2), CIF ARA	€ 105/t	5%
ENplus (A1), CIF ARA	€ 108/t	5.9%
ARA stocks, tonnes	20,000	25%

**Assessments reflect Europe-origin spot cargoes, loading up to 3 months*

ARA wood pellet stocks, '000 tonnes



could stimulate extra demand – particularly in Scandinavia – which in turn could encourage greater supply from Russia.

“But you would have to pay more than €120/t before the Russian supply starts to come back,” he added.

Market participants also cited the ongoing bearish influence of a fire in May at utility RWE’s 1.6 GW Eemshaven plant, which has resulted in lower overall market demand.

A biomass broker meanwhile said the pellet market remained largely subdued, noting it was unlikely to gain much momentum in the near-term.

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Wood Pellet Imports*, tonnes	Q2-20	Q1-20	Year-to-date	vs. Q2-19	vs. YTD 19
Netherlands	512,985	369,456	882,440	173%	192%
UK	2,261,508	2,148,474	4,409,982	5%	11%
Belgium	339,162	222,439	561,600	71%	57%
Denmark	308,855	497,995	806,849	-40%	-37%
<i>Of which in Q2-20</i>	US	Canada	Russia	Portugal/Spain	Baltics**
Netherlands	117,767	167,754	111,217	17,961	98,286
UK	1,495,658	441,793	56,389	37,719	229,949
Belgium	137,575	0	75,012	0	126,574
Denmark	122	33,602	88,652	35,128	151,352

**Source: Eurostat & BEIS **Latvia, Lithuania and Estonia*

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“Deals are being discussed for Q4 at US\$125-130/t and Q1 at US\$135/t-140/t,” the broker said.

And there was growing supply on the ground in Europe, with total stocks at monitored Amsterdam, Rotterdam and Antwerp (ARA) import terminals rising from 16,000t at the end of the second quarter to around 20,000t at present, according to RBCN estimates.

British demand

On the demand side, biomass accounted for an average 7.4% share of Britain’s electricity mix in the first eight months of the year, up from 6.1% in the corresponding period last year.

The rise was in line with gains across the renewables sector, with wind power’s share at 21.2%, compared with 16.1% last year and solar contributing a 5.4% average share, up from 5%.

As such, the three renewable sources combined made up 29.3% of the mix in January-August, against 27.3% in the same period in 2019.

Coal meanwhile saw its slice of the mix marginally higher, albeit still negligible, at 1.6%, from 1.5% last year. And gas’s portion declined from 41.9% to 34.5%. Nuclear’s contribution was also down from 19.1% to 18.7%.

Britain aims to phase out all unabated coal-fired capacity by the middle of the current decade, largely through increased biomass, wind and solar capacity, as well as power imports.

Enviva completes US plant purchase

US pellet producer Enviva in early August completed its acquisition of an industrial-scale wood pellet production plant in Waycross, Georgia, and associated contracted terminal capacity in Savannah, Georgia.

Enviva’s growing operational footprint across the US South-east now includes nine wood pellet production plants and five deep-water export terminals across Virginia, North Carolina, South Carolina, Georgia, Alabama, Mississippi, and Florida.

“We are excited to welcome the entire Waycross team into the Enviva family,” said John Keppler, chairman and chief executive of Enviva.

“This is an important step for Enviva’s growth and we look forward to continuing to be a great employer, customer, and neighbour, and an important contributor to the State of Georgia, a community we now call home.”~

The newly acquired Waycross plant has been operating since 2011 and has a production capacity of approximately 800,000 tonnes per year, all of which is exported through the Port of Savannah to Enviva’s customers under long-term take-or-pay

off-take contracts. Many such contracts extend until the mid-2040s.

Following the acquisition, Enviva’s total annual wood pellet production capacity is approximately 4.9m tonnes. With the acquisition complete, the Waycross plant is now called, “Enviva Pellets Waycross.”

Enviva’s claims its mission is to displace coal, grow more trees, and fight climate change.

Coronavirus hits 75% of ENplus firms

Around 75% of certified ENplus pellet producers and traders have been negatively affected by the COVID-19 pandemic, a survey by ENplus showed.

The survey of 93 certified companies from 21 countries – mainly in Europe – was conducted in order to provide information on possible future fluctuations in the market of high-quality wood pellets.

“More than half of the negatively affected producers and traders point out the reduction in end user demand as the most significant consequence so far,” it said, noting this would likely mean a decrease in production and trade from these firms until the end of the year.

But, despite the negative trend, the pandemic also brought some opportunities for around 5% of the firms.

“Contrary to the majority, most of these companies report an unusual increase in end-user demand during the first half of 2020,” it noted.

This is one reason for why almost 36% of the respondents plan a small price increase until the end of the year. However, another 26% of companies on the contrary intend to decrease the prices.

“In both cases, the new pellet prices will most probably introduce a difference of up to 20%,” it said.

“The collected data indicates also that the chances for a price increase or decrease are expected in all parts of Europe so all end users on the continent might be affected by these changes almost equally.”

Japan mulls “energy forests”

The Japanese government is considering cultivating dedicated “energy forests” to produce woody biomass for use in power generation, Japan’s Kyodo news service reported.

The plans come amid the country’s efforts to shift from fossil-fuel dependence to renewable energy.

In July, the country’s Agency for Natural Resources and Energy and the Forestry Agency jointly set up an expert group to explore the feasibility of the woody biomass power generation project.

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Drax hikes H1 biomass generation 16%

Workers British generator Drax increased biomass-fired generation 16% in the first half of 2020 to 7.4 TWh as the country's demand for renewable energy continues to rise amid diminishing coal-fired capacity, the firm said in its H1 results.

The company reported a 30% rise in first half group earnings before interest, tax, depreciation and amortisation (Ebitda) to £179m, citing strong renewable generation levels, system support services, the reinstatement of capacity market payments and a strong performance in pellet production.

This offset the negative impact of Covid-19 on the customers business, the generator said.

Drax, which operates a 3.9 GW plant in northeast England, will close its last two coal-fired units next spring, with the other four 654 MW units now operating on dedicated biomass, after conversion from coal in recent years.

While Drax imports some of its supply from third-party supplies, it also produces significant volumes itself.

In January-June, the firm produced 0.75m tonnes of its own wood pellets from production facilities in the US, which was 15% more than in 2019.

"[This reflected] good fibre availability compared to H1 2019 which, due to heavy rainfall, experienced restricted forestry activity and a lower level of low-cost fibre availability."

The firm also benefited from lower production costs of USD 154/t, compared with USD 170/t in the first half of 2019.

Drax plans to expand its own production to 5m tonnes by 2027, from capacity of around 1.5m tonnes at present.

"We expect global demand for wood pellets to increase by around 60% this decade as other countries develop decarbonisation programmes which acknowledge the benefits of sustainable biomass for generation."

Whilst there was an abundance of sustainable biomass globally, there remains limited wood pellet production capacity.

"As a result, we expect the global market for biomass to remain structurally short," it said.

Drax is therefore exploring options to service biomass demand in other markets, such as Europe, the US and Asia, alongside Britain.

Drax's portfolio produced 6% of the UK's power between October last year and March 2020 – the most recent period for which data is available – with Drax Power Station alone producing 10% of the country's renewable electricity.

Meanwhile Drax has agreed to extend its contract with

freight operator GB Railfreight (GBRf) to transport supplies of biomass from British ports to Drax Power Station until 2025.

"Teams at GBRf have worked closely with Drax for the past decade to maintain the supplies of sustainable biomass needed for the UK's largest power station to continue generating the flexible and reliable renewable power for millions of UK homes and businesses," it said.

It noted the deal was critical to Drax's global biomass supply chain and another step on its journey to negative emissions.

Under the terms of the contract, GBRf will run all of Drax tonnage from the Ports of Tyne and Liverpool to Drax Power Station, in North Yorkshire.

"The partnership between GBRf and Drax dates back to 2010 when GBRf began moving biomass by rail from the Port of Tyne," it said, noting originally GBRf had used wagons that had been converted from coal hoppers by adding lids.

"These [wagons] remain in use under the new contract [but] as Drax converted more of its coal units at the power station to sustainable biomass, Drax invested in new purpose-built biomass wagons that are larger and therefore more efficient at carrying the pellets," it said.

Drax said the longstanding relationship between Drax and GBRf over the past year had helped overcome challenges such as the local floods in February to the Drax branch line and then the COVID-19 crisis.

Riga pellet exports jump 7%

Wood pellet exports from Latvia's port of Riga jumped 7% in the first eight months of 2020, as traditional loadings of coal declined, port data showed.

The port loaded 1.39m tonnes over the period, compared with 1.3m tonnes in January-August last year.

The rise came as coal exports slumped 66% to just 2.3m tonnes, as Russian exporters opted instead to export coal from domestic Russian ports, which have experienced capacity increases over the past year.

A port spokesperson said the last year had become a "phase of change in cargo flows".

"Various timber, agricultural products, containers, domestic consignments, despite COVID-19 and related circumstances, are performing quite well," she said.

Overall dry bulk shipments in the first eight months from the Baltic port declined 32% to 9.1m tonnes, due largely to the coal-shipment decline.