

# Biomass Market Update

## Upturn in demand

**(RBCN) European wood pellet prices have gathered some strength over the first quarter of 2021 amid a tentative upturn in demand.**

Industrial wood pellet prices were assessed at an average of €118/t (US\$141.30/t) CIF ARA, up €19 compared with the prior quarter, according to an RBCN survey. ENplus A1 residential pellets were pegged at a negligible €2 premium.

“All the generators have been burning well,” said a European biomass trader, adding however they were also generally sufficiently stocked.

In the UK, for example, biomass accounted for an average 6.7% of the UK power mix in the first two months of 2021, a marginal improvement on January-February 2020, UK TSO data showed.

“Prices are still [relatively] low, but this is not due to poor generation performance, but rather buying for the time being has been done,” the trader said.

But he added there had been some upturn in trading activity in recent weeks, led largely by one large utility, with purchasing interest particularly focused on the Q4.

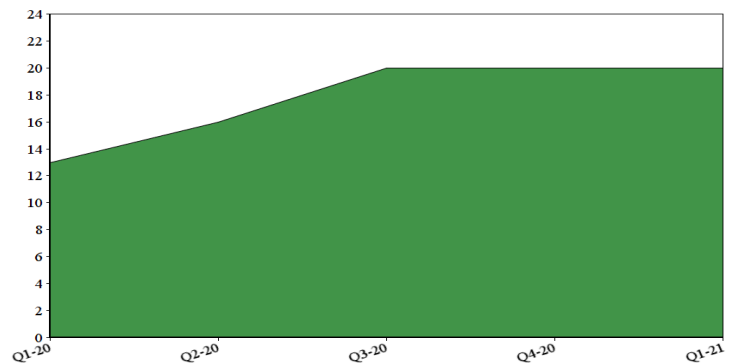
“Less than 160,000 tonnes have changed hands so far this year on the spot market, but this is still a nice improvement from nothing,” he said.

“Regarding longer-term signals, some key buyers have indicated a willingness to purchase wood pellets for next year at US\$145/t,” the trader said.

RBCN Wood Pellet Price and Stock assessments		
	End Q1 2021	Vs. Q4 2020
Industrial (I2), CIF ARA	€ 118/t	+19.2%
ENplus (A1), CIF ARA	€ 120/t	+18.8%
ARA stocks, tonnes	20,000	Unchanged

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

### ARA wood pellet stocks, '000 tonnes



Market participants also pointed to support from the freight market, with stronger shipping rates resulting in higher delivered prices for wood pellet cargoes.

By mid-March, the Baltic Exchange’s supramax and handysize indices had doubled since the start of the year.

An analyst with a large shipbroking firm attributed the strength to tightening vessel supply, amid heightened global commodity demand and congestion at Brazilian and Indonesian ports. He said the shortage of smaller ships had led to a cargo of wood being loaded onto a capesize vessel. *Continued on p.2...*

Wood Pellet Imports*, tonnes	Q4-20	Q3-20	Year-to-date	vs. Q4-19	vs. YTD 19
Netherlands	784,504	706,716	2,373,660	118%	188%
UK	2,205,339	2,140,926	8,756,247	-5%	4%
Belgium	221,019	206,205	988,824	-23%	3%
Denmark	748,923	190,141	1,745,914	-2%	-25%
<i>Of which in Q4-20</i>	<b>US</b>	<b>Canada</b>	<b>Russia</b>	<b>Portugal/Spain</b>	<b>Baltics**</b>
Netherlands	214,822	284,450	68,788	7,310	209,134
UK	1,458,636	372,483	71,984	34,563	267,673
Belgium	145,640	0	68,056	0	7,323
Denmark	89,686	0	171,979	40,238	447,021

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

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But the shipbroker analyst noted this was likely to be a “one off”.

Meanwhile, total stocks at monitored Amsterdam, Rotterdam and Antwerp (ARA) import terminals remained flat at around 20,000 tonnes, unchanged since the end of the third quarter of 2020, according to RBCN estimates.

“At present, wood pellet throughput – from ship to barge – is very regular,” said a source at one import terminal.

On the supply side, Russia’s wood pellet production grew 12% in February to 0.16m tonnes, while year-to-date shipments were up 18% at 0.34m tonnes, show Rosstat data.

The rise in part reflected increased seaborne prices for the commodity, as well as low production costs for Russian producers, market participants said.

“Russia has swiftly become one of the major players in pellet production, with output rising significantly in ten years,” said index provider Foex in a note.

“The growth is forecast to continue due [in part] to the recently introduced roundwood export ban,” it said, noting this could increase sawmilling volumes and by-products, which can in turn be used as a wood pellet raw material.

A new law proposed by Russian president Vladimir Putin would ban the export of softwood logs and high-value hardwood logs as of January next year.

At the same time, Latvian wood pellet exports in February from the port of Riga rose 10% on the year to 0.22m tonnes. This followed a sharp drop in January, of 12% versus the same month in 2020, to just 0.17m tonnes.

Traders said the January decline for Latvia reflected poor export prices, which encouraged leading producer Graanul to reduce operations.

Riga’s wood pellet exports totalled 2m tonnes last year, up 7% on the year amid a decline in coal throughput.

## **Enviva targets net-zero by 2030**

**US pellet producer Enviva aims to achieve net-zero greenhouse gas emissions from its operations by 2030, it said in February.**

“This commitment to climate action reinforces Enviva’s core purpose to displace coal, grow more trees, and fight climate change,” it said.

Enviva exports its wood pellets primarily to the UK, Europe, the Caribbean and Japan, which it claims enables its customers to reduce their carbon emissions by more than 85% on a lifecycle basis.

“At Enviva, fighting climate change is at the core of what we do,” said John Keppler, the company’s chairman and chief executive officer.

“For more than a decade, we have played a critical role in helping the world’s energy producers substantially reduce their net carbon emissions by using sustainable bioenergy, enabling them to phase out coal, support increases in forest carbon stocks, and provide reliable, affordable energy to their communities.”

In the framework of this carbon-neutral aim, Enviva will immediately work to minimize the emissions from fossil fuels used directly in its operations. Also, to address the emissions arising from electricity purchases in its operations, the company plans to source 100% renewable energy for its operations by no later than 2030, with an interim target of at least 50% by 2025.

Furthermore, it will “drive innovative improvements” in its supply chain, to address emissions generated as part of its upstream and downstream supply chain.

Enviva will transparently report progress, by publishing its progress in reducing its emissions annually.

## **UK to invest £4m in biomass projects**

**The UK government will invest £4 million in projects that aim to increase the production of sustainably sourced domestic biomass, it announced in March.**

The so-called “Biomass Feedstocks Innovation Programme” will fund innovative ideas that address barriers to biomass feedstock production, it said.

It will support those who are seeking to improve productivity, through breeding, planting, cultivating and harvesting.

Up to £200,000 of full funding is available per project, which the government said would enable suppliers to develop strong project proposals that deliver commercially viable innovations in biomass production.

“The Biomass Feedstocks Innovation Programme is seeking the best ideas from across the UK,” it said, adding the funding aims to support organisations, including small and medium-sized enterprises, who have the technical capability and project management expertise to deliver strong proposals.

The programme forms part of the government’s £1 billion Net Zero Innovation Portfolio, which aims to accelerate the commercialisation of innovative clean energy technologies and processes through the 2020s and 2030s.

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## UK generator Drax to acquire Pinnacle

### UK generator Drax has signed an agreement to acquire Canadian pellet producer Pinnacle Renewable Energy.

Drax said the acquisition would advance its biomass strategy by more than doubling its production capacity, significantly reducing its cost of production and adding a major biomass supply business underpinned by long-term contracts with high-quality Asian and European counterparties.

“The acquisition positions Drax as the world’s leading sustainable biomass generation and supply business alongside the continued development of Drax’s ambition to be a carbon negative company by 2030, using Bioenergy Carbon Capture and Storage (BECCS),” it said.

The acquisition remains subject to Drax and Pinnacle shareholder approval, court approval, regulatory approvals and the satisfaction of certain other customary conditions.

Completion is expected to occur in the second or third quarter of 2021.

“Sustainable biomass has an important role to play in global energy markets as a flexible and sustainable source of renewable energy, as well as having the potential to deliver negative emissions,” Drax said.

The firm said the acquisition would see its self-supply of sustainable biomass grow to 5 million tonnes per annum. It currently operates 1.6 million tonnes of capacity, with 0.4 million tonnes in development. It said the merger would also reduce the cost of biomass to £50/MWh by 2027.

“Through the delivery of these strategic objectives, Drax aims to create a long-term future for sustainable biomass, including third-party supply, BECCS and merchant biomass generation.”

The Group’s enlarged supply chain will have access to 4.9 million tonnes of operational capacity from 2022. Of this total, 2.9 million tonnes are available for Drax’s self-supply requirements in 2022 – increasing to 3.4 million tonnes in 2027.

“Drax aims to increase the level of third-party sales and further expand its capacity to meet its target of five million tonnes of self-supply by 2027,” it said.

Pinnacle, which is listed on the Toronto Stock Exchange, operates 2.5 million tonnes of biomass capacity at sites in western Canada and the south-eastern US, with a further 0.4 million tonnes of capacity in development and due for commissioning in 2021.

## Orsted, Microsoft to develop biomass CCS

### Denmark’s Orsted, Aker Carbon Capture and Microsoft have signed a memorandum of understanding (MoU) to explore ways to support the development of carbon capture and storage (CCS) at biomass-fired heat and power plants in Denmark.

CCS is widely accepted as an important instrument to meet both the Danish climate targets of 70 % carbon reduction by 2030 and to meet the Paris Agreement’s goal to limit global temperature increases to 1.5 degrees Celsius, Orsted said.

“By capturing the carbon emitted by biomass-fired heat and power plants and storing it underground, it is possible to not only reduce, but also remove carbon from the atmosphere, as carbon from sustainable biomass is part of a natural biogenic carbon cycle,” it said.

The three companies will cooperate to address technological, regulatory, and commercial challenges and opportunities for creating negative emissions by capturing and storing carbon emitted by biomass-fired heat and power stations, with each party playing crucial and distinct commercial roles.

Under the terms of the memorandum of understanding, the parties agreed to explore the possibility to jointly develop a negative emission project at one of Orsted’s biomass plants. They will also explore a technology collaboration to integrate Microsoft’s digital expertise into a biogenic carbon capture project with Aker Carbon Capture’s health, safety & environment (HSE) friendly capture technology.

The firms will explore ways to jointly accelerate the development of a biogenic carbon capture project and they will also explore and establish advocacy of policies that help accelerate the negative emission frameworks in European countries.

Orsted currently has six biomass-fired units and provides around one quarter of Denmark’s district heating. The biomass used comes from sustainably managed production forests.

“This wood is of a too low quality to be used for construction or furniture,” Orsted said. “The surplus wood can either be left to rot or be burned in the forest, or it can be used for example to replace gas and coal in energy production.”

Even though Orsted foresees that technologies based on renewable power will replace a substantial part of bioenergy in the district heating towards 2040, it expects carbon capture at a number of biomass-fired units to play an important role in the energy transition.