

# Biomass Market Update

## Market oversupplied

**(RBCN) European wood pellet prices have dropped over the past quarter amid lower-than-anticipated demand and some surplus in supply, while port stocks swell.**

Industrial wood pellet prices were assessed at an average of €100/t (US\$112.10/t) CIF ARA, down €43 compared with the previous quarter, while ENplus A1 residential pellets were pegged at a premium of no more than €2, according to an RBCN survey.

A biomass broker said the market had been “quiet”, noting trading activity remained thin.

Market participants said this in part reflected a fire in May at utility RWE’s 1.6 GW Eemshaven plant, which had resulted in an unexpected drop in wood pellet demand.

“Biomass supply for both Eemshaven units is still disturbed after a fire in the biomass installation,” RWE said in a note.

In late June, the utility said the plant’s units were likely to run in “hard-coal-only” operation until the end of November.

“At present the RWE power plants at Geertruidenberg and Eemshaven are burning less pellets than expected, for various reasons,” said a source at one Dutch import terminal.

He said this meant all available covered storage capacity was being utilized for wood pellets, noting “RWE has so many tonnes in storage, you wouldn’t believe it.”

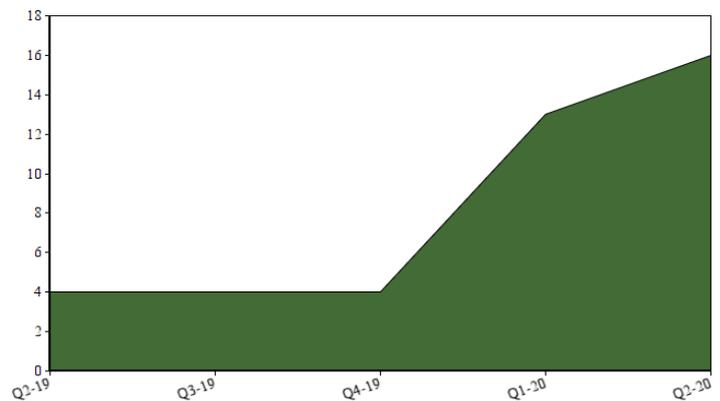
He added ship-to-barge operations were also on the rise.

As such, total stocks at monitored Amsterdam, Rotterdam and Antwerp (ARA) import terminals could rise from 16,000 tonnes at present to at least 22,000 tonnes in July, according to initial RBCN estimates.

RBCN Wood Pellet Price and Stock assessments		
	End Q2 2020	Vs. Q1 2020
Industrial (I2), CIF ARA	€ 100/t	-30.1%
ENplus (A1), CIF ARA	€ 102/t	-29.7%
ARA stocks, tonnes	16,000	23%

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

### ARA wood pellet stocks, ‘000 tonnes



A source at another ARA terminal said although his firm had not stockpiled wood pellets in the past, “this might change” over the coming months.

“The Eemshaven plant outage has been bearish for the market,” said a biomass trader.

He said the plant could burn around 1 million tonnes of pellets a year; “so over six months, that’s 500,000 tonnes of pellet consumption lost, and this all has to find a home.”

Meanwhile, stocks at plants were still high across Europe, following a milder-than-expected winter. *Continued on p.2*

Wood Pellet Imports*, tonnes	Q1-20	Q4-19	Year-to-date	vs. Q1-19	vs. Q4-19
Netherlands	369,456	360,303	369,456	223%	3%
UK	850,001	2,324,682	850,001	-53%	-63%
Belgium	222,439	285,605	222,439	41%	-22%
Denmark	497,995	767,240	497,995	-35%	-35%
<i>Of which in Q1-20</i>	<b>US</b>	<b>Canada</b>	<b>Russia</b>	<b>Portugal/Spain</b>	<b>Baltics**</b>
Netherlands	65,659	0	56,822	35,245	211,730
UK	474,758	218,799	24,703	6,395	125,346
Belgium	164,702	0	26,853	0	30,884
Denmark	31,042	27,987	99,764	37,969	301,233

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

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And reduced industrial activity over the spring months, as European countries took steps to combat the spread of the coronavirus, had further limited power demand.

“The market is very soft, which is more to do with market dynamics than the coronavirus,” said the trader; “there was a hangover in supply from the mild winter, so plenty of inventories.”

“Power demand has gone down,” he said, adding there was no major impact on demand in the UK, but “some impact” in Belgium and the Netherlands.

Indeed, despite an overall decline in power demand – which saw coal absent from the generation mix for more than two months – UK government data showed biomass accounted for more than 7% of the country’s power output in January-May, reaching a record high share of nearly 9% in May.

This compared with an average of 5.8% in the first five months of 2019.

Meanwhile, market concerns earlier in the year of a potential shortfall in supply, due to reduced operations at sawmills amid coronavirus lockdowns, proved largely unfounded.

“We’ve not had any major disruptions,” the trader said, adding “there were fears sawing activity would decline [thereby reducing raw material availability] but for most suppliers, this was not a problem.”

However, there were some issues across the Atlantic, with Canada-based producer Pinnacle Renewable Energy saying sawmills and key fibre suppliers had started to curtail output as a result of the impacts from Covid-19 on their businesses.

“As a result, the company will be dependent on harvest residuals in 2020 more than in the last quarter,” it said.

But it said British Columbian sawmill residual supplies would have stabilised in the second quarter.

“Although there are some sawmill curtailments in Alabama, Pinnacle does not expect production volume or costs to be significantly impacted [as] the company continues to have strong availability of wood fibre in Alberta.”

The trader also said low prices could encourage some reductions in output from key suppliers.

“There is some talk by producers of curtailing production, because at these prices, no one really covers production costs,” he said.

### **Pinnacle sales jump**

Meanwhile, Pinnacle said in its Q1 financial results it had hiked wood pellet sales 27% in the first quarter of 2020 to 510,000 tonnes, despite some operational challenges.

A derailment in January in British Columbia damaged Pinna-

cle-leased railcars and resulted in some lost pellets.

Furthermore, ten straight days of cold weather in January caused rail disruptions resulting in some facility downtime.

This caused the loss of around 20,000 tonnes, it said.

“[But] with challenges resolved, operational progress was realised in March with solid production volumes and cost performance as the facilities were able to operate continuously,” it added.

It said sales in the first quarter included a significant volume of high-cost finished pellet inventory from year end and third party purchased pellets with no margin, which were used to fulfil customer obligations.

“With the emergence of Covid-19 in Q1 and the resulting supply chain disruptions and international travel restrictions affecting the onsite presence of our external experts, smaller projects have been proactively delayed in order to preserve capital and enforce federal safety standards in light of the pandemic,” the firm added.

### **Enviva boosts Q1 sales 19%**

**The world’s largest producer of industrial wood pellets increased product sales 19% in the first quarter to just over 1 million tonnes, Enviva said in its Q1 financial results.**

As a result, the firm reported net income of US\$7.6 million and adjusted net income of US\$9.1 million, compared with net loss of US\$8.9 million and adjusted net loss of US\$8.1 million for the first quarter of 2019.

“Despite the Covid-19 pandemic and in what is typically our most seasonally challenging quarter, we reported strong first quarter,” said John Keppler, chairman and chief executive officer.

“We operate a portfolio of eight wood pellet production plants geographically dispersed in areas with low population density across the Southeast United States,” the firm said.

“We export our product under take-or-pay off-take contracts through a portfolio of four bulk terminals and transport it to our customers under long-term, fixed-price shipping contracts with multiple shipping partners.”

It said that since the business supplied essential fuel to its customers for baseload heat and power generation, it was critical in the fight against Covid-19.

“Most of our current deliveries are to Europe, where they fuel grid-critical baseload, dispatchable generation facilities that provide power and heat required for local communities.”

It added that there were few substitutes or alternatives to the fuel for their customers.

Enviva also said it was prepared for any further escalation in the coronavirus crisis.

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## Drax workers threaten strikes

**Workers at the 3.9 GW Drax power plant in the UK, which predominantly runs on biomass, are threatening strike action this summer, according to the UK's largest union.**

The Unite union said it was preparing to hold a ballot for industrial action, including the option for strike action at the plant in North Yorkshire.

It said a consultative ballot saw members vote by 85% in favour of a full-scale ballot over the prospect of 230 redundancies. And a subsequent consultative ballot over a fresh offer from Drax in late June was rejected by 84% of members.

The dispute centres on the six-unit site at Selby, where Drax Group is planning to close two coal-fired units next April.

The other four units run on wood pellets and the plant plans to replace the coal units with gas-fired capacity.

Unite said when a pay deal was agreed last year, it was stated there would be no compulsory redundancies amongst the 600-strong workforce. It said Drax had now backtracked on the agreement.

Drax responded however that it had given its employees over a year's notice, with the job losses to take place in April next year.

"This means we have time to support those affected to get the best outcomes for them," it added.

"Stopping using coal is something Drax has been working on for well over a decade. The move away from coal is the right decision for the environment, our communities and our business," it said.

It added; "we have been talking to our employees and the unions for over two years about the impact coal closure will have on people, because we recognise this is going to be difficult for them and their families."

## Drax, Mitsubishi bioenergy CCS project

**UK generator Drax and Mitsubishi Heavy Industries Engineering will begin a 12-month bioenergy carbon capture storage (BECCS) pilot project in the autumn.**

The new BECCS pilot facility will be installed within Drax's recently constructed carbon capture utilisation and storage (CCUS) incubation area at its 3.9 GW plant in North Yorkshire.

"[The] pilot will capture around 300kg of CO<sub>2</sub> a day for the purpose of confirming its technology's suitability for use with biomass flue gases at Drax," the generator said in a note.

It said implementing BECCS at Drax could deliver 16m tonnes of negative emissions a year – a third of the negative emissions the UK needs from BECCS to reach its zero carbon targets by 2050.

During the pilot state, two of Mitsubishi's proprietary solvents will be tested, one of which - KS-1TM Solvent - is already being used at 13 other plants.

The other is the newly developed KS-21TM Solvent.

## Vattenfall delays Dutch plant

**Swedish utility Vattenfall has delayed plans to build a 120 MW biomass-fired plant close to Amsterdam amid concerns about sustainability, it said in late June.**

"Due to the ongoing discussion amongst politicians, municipalities and civil society organizations about the plans for a biomass plant to be built in Diemen, it is essential for Vattenfall that after the summer the Dutch government comes up with a clear sustainability framework for biomass," it said.

Vattenfall has therefore decided to discuss the results of this framework with the parties involved again before making a final decision on when construction will begin.

The firm said it was working on various sustainable heat sources, including electric boilers, geothermal energy, residual heat from data centers, hydrogen and biomass.

"Of these sustainable options, only biomass is widely available in the short term," it said, noting it already had many years' experience of this fuel source in Sweden.

"Vattenfall is convinced that it can use biomass in Diemen in a responsible, sustainable manner," it said.

However it was also "working hard" on the development of alternative heat sources to eventually take over the role of the biomass power station and thus phase out biomass usage.

"We see the public discussion about biomass increase. We are not deaf to this sound, but we do miss the nuance in the debate," said Martijn Hagens, chief executive officer of Vattenfall Netherlands.

"Moreover, there is currently no clear voice from the Dutch government and the signatories of the Climate Agreement in favour of biomass [so] we have therefore decided that we will once again enter into discussions with those involved before we make a final and irrevocable decision to build the biomass power plant in Diemen," he said.

He added Vattenfall expected to be able to make a final decision after summer next year.