

Biomass Market Update

Record low prices

(RBCN) European wood pellet prices have fallen to around their lowest levels on record due to abundant supply and sluggish demand.

Industrial wood pellet prices were assessed at an average of €99/t (US\$120/t) CIF ARA, down €6 against the previous quarter. ENplus A1 residential pellets were seen at a EUR 2 premium, according to an RBCN survey.

“Activity is around the USD 120/t CIF ARA level, but this is still very low – maybe near record lows,” said a European biomass trader. He said while the utility burn rate had been “good”, milder weather had affected demand, particularly for the premium pellet market.

At the same time, wood pellets – as with other power fuels – have suffered from reduced power demand as European countries took steps to combat the coronavirus pandemic.

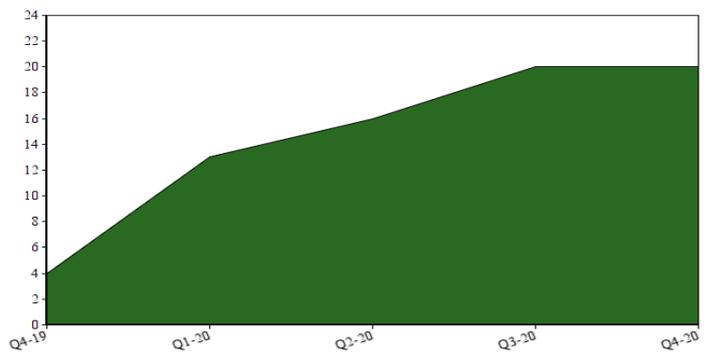
“There has been some indirect knock-on effect from the coronavirus pandemic, when power demand has been low [due to lockdowns] it has impacted industrial units,” the trader said, adding “but all units able to run have been running very well.” He said also while there had been some power-plant outages – notably in the UK – this was simply a usual market occurrence. “All are back now and doing well,” he said.

“2020 has not come without its challenges,” the European Pellet Council said in a report. “Indeed, after having faced serious market tightness in early 2019, the market eased for months to a point where it is now clearly oversupplied, pushing the price to historical low levels.”

RBCN Wood Pellet Price and Stock assessments		
	End Q4 2020	Vs. Q3 2020
Industrial (I2), CIF ARA	€ 99/t	-5.7%
ENplus (A1), CIF ARA	€ 101/t	-6.5%
ARA stocks, tonnes	20,000	Unchanged

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

ARA wood pellet stocks, '000 tonnes



It said while the industry was often confronted with offer-demand fluctuations, the Covid-19 pandemic this year had emerged entirely unexpectedly and risked putting immense pressure on the sector.

But it said, besides having had a limited influence on pellet use for electricity production following the drop in European power demand, the pandemic had “no dramatic impact”.

In fact, the trader said there was even some heightened interest from some utilities to purchase January-arrival supplies.

“There are a few small holes to fill,” he said, noting “as such, there has been a bit of a pick-up in prices.” *Continued on p2...*

Wood Pellet Imports*, tonnes	Q3-20	Q2-20	Year-to-date	vs. Q3-19	vs. YTD 19
Netherlands	706,716	512,985	1,589,156	335%	242%
UK	2,140,926	2,261,508	6,550,908	2%	8%
Belgium	206,205	339,162	767,806	-36%	13%
Denmark	190,141	308,855	996,990	-32%	-36%
<i>Of which in Q3-20</i>	US	Canada	Russia	Portugal/Spain	Baltics**
Netherlands	226,615	163,342	113,154	9,015	194,591
UK	1,387,832	377,368	73,272	45,944	256,510
Belgium	84,367	0	81,955	0	39,883
Denmark	55,351	0	61,052	17,513	56,226

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

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Continued from p.1...

Indeed, the market clearly anticipated increased demand, and prices, next year.

Another biomass market participant said a 50,000-tonne stem earmarked for delivery this year to the UK's Lynemouth plant had been swapped with UK generator Drax, with Lynemouth – which only resumed operations in mid-November following a one-month outage due to a ceiling collapse – now receiving a cargo in July at a USD 15/t premium.

Otherwise, the market participant said trading activity in recent weeks had been “quiet”.

On the supply side, market sources said most producers – other than some low-cost Russian suppliers – were unable to sell at such low price levels, so some reduction in output could occur.

One source said around 100,000 tonnes of Baltic capacity was currently offline.

Meanwhile, total stocks at monitored Amsterdam, Rotterdam and Antwerp (ARA) import terminals were unchanged from the previous quarterly report's level, at around 20,000 tonnes, according to RBCN estimates.

Russian pellet exports thriving

US Russian wood pellet exports will set numerous records this year, with shipments having remained firm throughout the year, Maersk Broker said in a report.

Exports hit a quarterly high in the third quarter, when approximately 0.7m tonnes of wood pellets departed from Russian ports, up 37% year on year, it said.

“Throughput at the port of St Petersburg has particularly accelerated,” it said, noting infrastructure upgrades had allowed exporters to increase shiploads significantly.

This translated into to a record throughput of 0.5m tonnes during the January-September period, up 53% year on year.

“The export growth of Russian wood pellets primarily met industrial demand in Europe and South Korea,” it said, adding Russian pellet shipments to South Korea more than doubled in the third quarter of the year, with exports totalling 0.3m tonnes.

“South Korean demand has been on the rise this year, as newly installed biomass plants have lifted consumption.”

The shipbroker said South Korea had been seeking to diversify its biomass sources for a while, away from traditional south-east Asian suppliers.

“Russian pellets enjoy a higher calorific value and are more price competitive than southeast Asian produce,” it noted.

“Russian producers have clearly made a statement of intent

in becoming a serious competitor to Vietnamese, Malaysian and Indonesian producers in the Pacific market,” it added.

The report said Russian wood pellet production had steadily increased over the past decade.

Government data showed output grew by 6.4% to 1.5m tonnes over the first three quarters of the year, versus January-September 2019.

Enviva ships 1st cargo to Japan

US pellet producer Enviva exported its first shipment of wood pellets from Port Panama City in Florida to Japan's Iwakuni Port in early December.

“Worldwide demand for renewable solutions that can help mitigate climate change right now continues to grow immensely,” said John Keppler, Enviva Chairman and Chief Executive Officer.

“We are very proud of our operations in the Southeast and our export terminals that enable us to safely, stably, and reliably deliver a product that displaces coal and helps countries like Japan meet their climate change goals.”

The shipment carried approximately 28,000 metric tonnes of wood pellets made from low-value wood sourced in the US Southeast.

“This shipment marks the first of many to a global economic powerhouse where demand for a long-term supply of sustainable biomass continues to grow as the economy moves away from fossil fuels,” Enviva said.

Japan's feed-in tariffs for renewable energy, along with the government's commitment to shut down or decarbonize 100 coal plants, have enabled more than 3 million tonnes of long-term demand for wood pellets to be contracted by Enviva.

Most of such agreements with the company's Japanese customers extend to 2040 and beyond.

Ceiling collapse halts UK plant

Czech utility EPH's 400 MW Lynemouth biomass-fired plant, in England, resumed operations on 17 November following a one-month outage due to a ceiling collapse.

The plant suspended operations on 14 October when a ceiling within the power station's control room unexpectedly came down, according to EPH subsidiary Lynemouth Power.

“The control room and all surrounding areas were evacuated and fully secured, and all three units of the power station were immediately shut down,” it said.

An internal investigation into the root cause of the accident was carried out during the period of repair.

Pinnacle reports record output in Q3

Pinnacle Renewable Energy, the world's second-largest producer of wood pellets, hiked production 13% in the third quarter to a record 587,000 tonnes.

"The combination of warmer and drier weather, lower fibre costs and the returns associated with the company's capital investment activities contributed to record production and profitability," the firm said in its Q3 results. The total was also 33% higher than in the same quarter last year.

"Strong performance gains were recorded at a number of plants in Q3 2020 led by Williams Lake which benefited from the completion of its dryer upgrade project in the prior quarter," it said, noting this resulted in production rising by more than 47% quarter over quarter.

"The Entwistle mill continued its ramp up process during the quarter, increasing production by more than 6% quarter-over-quarter," it added.

However, service failures at CN Rail and the Fibreco Terminal, in North Vancouver, negatively impacted production in Q3 by an estimated 20,000 tonnes, it said.

"Significant time and attention is being directed to the CN service issue with the goal of improving service levels," it said.

The issue at Fibreco was caused by a structural failure of a recently constructed grain silo which required Pinnacle to re-route a ship that was originally scheduled to load at Fibreco to a port facility in Prince Rupert. Fibreco resumed operations in mid-October.

On the sales side, Pinnacle said customer demand for wood pellets remained strong.

"In Q4 2020, we expect to see positive year-over-year production increases," it said, noting however cooler weather in the final three months of the year was expected to "moderate production" and increase fibre drying costs, which is typical during the winter months.

"In addition, the spillover of the Fibreco incident impacted loading operations at the port in the early part of Q4 2020, which may continue through the balance of the quarter and possibly longer," it said, noting this could have additional impacts on rail service and production.

"Pinnacle expects to increase its fibre inventories in the coming months as a hedge against seasonal factors and other potential disruptions in the supply of traditional feedstock," it said.

Meanwhile, with respect to the Covid-19 pandemic, ongoing uncertainties, including reports of higher positive test results in areas in which the firm operates, had the potential to impact its operations and the availability and cost of feedstock, it said.

"[But] barring a deterioration in the business environment due to Covid-19 or other factors, the construction of the company's growth-related projects will continue as planned."

New mill

Meanwhile, Pinnacle commenced initial pellet production at its newly-constructed facility in High Level, Alberta, it said on 8 December.

The facility, which has a projected run-rate capacity of 200,000 metric tonnes per year, is owned 50% by Pinnacle and 50% by Tolko Industries.

"Production will be sold through Pinnacle's contracted backlog of long-term, take-or-pay off-take contracts," the producer said in a press note.

The mill, along with another project at Demopolis, Alabama – which is scheduled for completion in Q2 2021 – will increase Pinnacle's overall production capacity by almost 25% to 2.8 million tonnes/year and increase the portion located in jurisdictions outside of British Columbia to approximately 44%.

Pinnacle is gradually ramping up production at the mill and expects to reach full run-rate production in 2021.

German biomass plant planned

German utility Enercity intends to build an 80 MW biomass plant on the site of an existing coal-fired power station in Hanover-Stoecken by mid-decade.

The plant will produce 415 GWh of heat annually for district heating supply in Hanover and industrial customers. Construction will cost an estimated €80 million and will be supplied by regionally-produced biomass.

"[This is] in order to avoid long transport routes and to increase regional added value," Enercity said in a press note.

"The next step is approval planning," it said, adding "biomass is an important piece of the puzzle for a successful coal exit."

The two existing 136 MW coal-fired units at the site will be decommissioned in 2025 and 2030.

Enercity would also commission a sewage sludge plant by the end of 2022, which could generate 50 GWh/year of heat.