

Biomass Market Update

Spot demand picks up

(RBCN) European wood pellet prices have strengthened over the second quarter, amid heightened spot demand.

Market participants pegged I2 industrial wood pellet prices at an average of €124/t (US\$148/t) CIF ARA, up €6 against the previous quarter, according to an RBCN survey. ENplus A1 residential pellets were seen at slight premium of €1 to the I2 price.

“Prices are improving [albeit] from the lowest levels ever,” said a Scandinavian biomass trader, noting I2 spot cargoes were changing hands at between €120-125/t, CIF, depending on the destination.

Contracts for the next season were being concluded around €10 higher, while supplies for 2022 were seen at a little over €130/t.

“Power and heat consumption is not being affected by the coronavirus pandemic,” the trader said, adding “power prices are really attractive and carbon prices are high, which is really good for the business.”

Indeed, European benchmark carbon (EUA) prices in May hit a record high of €56.90/t, compared with levels of around €33/t at the start of the year.

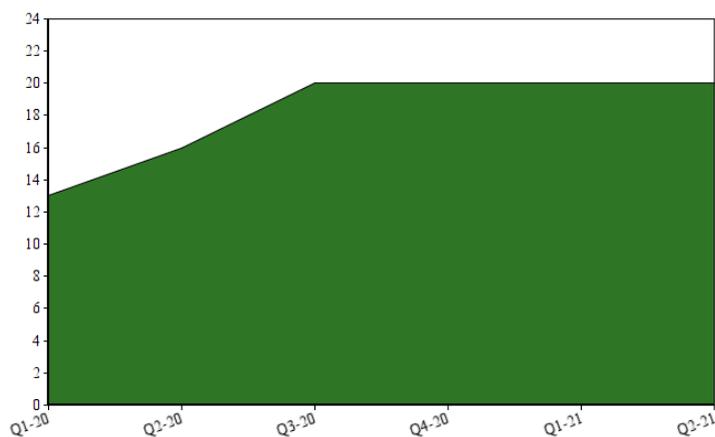
At the same time, feverish buying activity by Danish utility Orsted had underpinned prices.

“The fact that they were buying in April and May was very unusual,” the trader said, adding the utility had purchased “a good few hundred thousand tonnes” over

RBCN Wood Pellet Price and Stock assessments		
	End Q2 2021	Vs. Q1 2021
Industrial (I2), CIF ARA	€ 124/t	+5.1%
ENplus (A1), CIF ARA	€ 125/t	+4.2%
ARA stocks, tonnes	20,000	Unchanged

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

ARA wood pellet stocks, '000 tonnes



the period, mainly of cheaper Russian pellets, but also of more costly material from Latvia.

“That helped the market,” he said, adding, “Drax and RWE are actively buying, so spot activity this year has really picked up.”

A UK-based biomass market participant said demand had become subdued in June, “after a few weeks of crazy buying from Orsted”.

“Pricing is still holding up, but demand for the summer now is thin,” he said.

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Wood Pellet Imports*, tonnes	Q1-21	Q4-20	Year-to-date	vs. Q1-20	vs. Q4-20
Netherlands	597,101	784,504	597,101	62%	-24%
UK	2,074,710	2,205,339	2,074,710	-3%	-6%
Belgium	166,034	221,019	166,034	-25%	-25%
Denmark	871,534	748,923	871,534	75%	16%
<i>Of which in Q1-21</i>	US	Canada	Russia	Portugal/Spain	Baltics**
Netherlands	319,459	24,405	83,223	3,568	166,445
UK	1,320,653	447,784	70,481	22,303	213,489
Belgium	63,485	20	88,240	0	14,289
Denmark	143,902	29,259	121,495	29,056	547,822

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

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Yet he noted while Orsted was sufficiently stocked for the time being, “things could change”.

“But there’s no more buying interest for now,” he added.

In the longer-term, there were some concerns that the European Union may attempt to tighten legislation on the use of biomass for power generation.

One threat was a possible ban on the use of biomass produced from whole trees – rather than wood residue – which traders said would affect supply from leading US supplier Enviva, as well as some Baltic producers.

“It’s clear biomass is not a priority [for the EU],” the first trader said, noting solar, hydropower and wind remained more popular renewable energy resources.

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

But port sources said this did not mean imports had slowed down significantly.

“We are very busy indeed,” said a source at one ARA terminal, pointing to regular ship-to-ship operations.

“We are doing quite some [ship-to-ship] shipments for a plant in Rotterdam, for direct use,” said source at another import hub.

On the supply side, Russia’s wood pellet production grew 9% in May, on the year, to 168,000 tonnes, according to government statistics data, although this was lower than the previous month’s 190,000 tonnes.

In January-May, production was up 17.6% to 874,000 tonnes.

Enviva sees new opportunities

While European utilities have long been the prime consumers of biomass, the industrial sector is becoming an emerging market, said US pellet producer Enviva.

“Large steel mills, cement factories, and chemical plants are evaluating both coal-to-biomass switching and adding CCS infrastructure to their energy supply chain,” the firm said in its Q1 2021 results.

The key US producer said it had recently delivered test volumes to a large industrial conglomerate in Europe, to pilot biomass as a replacement for metallurgical coal in its steelmaking operations.

“Given the growing market for our product in Europe, [we have] increased [our] presence in the region by adding

additional employees to support sales and business development, shipping and logistics, and market and policy development in both the United Kingdom and Germany.”

It said there were similar opportunities for potential new markets, such as Poland.

“Specifically for Poland, we are seeking to replicate our market entry strategy in Japan, where we have been successful in securing approximately 3.7 million tonnes/year of long-term contracted demand to major utilities and power generators.”

Enviva said “favourable policy tailwinds” in Japan continued to support further investment in biomass-fuelled technology, with the government working to revise its Strategic Energy Plan by mid-2021.

“The ruling Liberal Democratic Party’s Renewable Energy Caucus has commented that the share of renewable power in its 2030 energy mix should increase from a range of 22% to 24% under the current plan to at least 45%,” it said.

“Increasing the use of non-fossil fuel such as biomass is one of the most cost-effective ways for coal operators to increase thermal efficiency, and we expect this new thermal efficiency standard to drive incremental commercial opportunities.”

In addition to the aforementioned annual volume supplied to Japan, Enviva recently executed a 21-year take-or-pay off-take contract to a biomass-fired power plant, backed by a major Japanese utility and a major Japanese trading house, for 60,000 tonnes/year of wood pellets.

“The contract is subject to certain conditions precedent, which our sponsor expects to be met during 2021,” it said, adding deliveries under the contract were expected to commence in 2024.

Drax, Mitsubishi join forces on BECCS

Drax Group and Mitsubishi Heavy Industries Engineering (MHI) have agreed a long-term contract for Drax to use its carbon capture technology, Drax said in June.

“The agreement combines pioneering UK innovation and Japanese technology with the potential to deliver the largest deployment of negative emissions in power generation anywhere in the world,” Drax said, noting this would support the UK government’s ambitious target to reduce carbon emissions, while enabling clean growth and green jobs.

Bioenergy with carbon capture and storage – or BECCS – at Drax could enable the company to become carbon negative by 2030, it said.

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Lobby seeks UK biomass commitment

The UK's Association for Renewable Energy and Clean Technology (REA) has called on the country's government to re-assert its commitment to delivering a strong biomass sector, it said in June.

In response to the UK government's "Biomass Strategy Call for Evidence", the REA said it welcomed its recognition that biomass had a critical role to play in getting to net zero, but also said it was essential that policy gaps facing the sector were addressed.

"Development of the response followed a series of REA roundtables with industry stakeholders, with over 100 bioenergy practitioners providing input," the association said.

"This was accompanied by close engagement with the government's biomass strategy team and several bilateral discussions with MPs," it added.

The response also underlined significant potential for the growth of domestic biomass feedstocks, providing essential demand for wood products that drives tree planting and brings more woodlands in to sustainable managements.

"It says that this market dynamic must be recognised by government if it is to realise its future tree planting and bioenergy targets," it added.

The REA also said the delivery of successful bioenergy sectors would deliver further innovation, including bioenergy carbon capture and storage.

"Biomass already plays a fundamental role in decarbonising the UK, providing the largest contribution to renewable energy across power, heat and transport overall," said Mark Sommerfeld, REA's Head of Power and Flexibility.

"Therefore, future biomass policy must build on the success of existing industries, providing immediate carbon savings while the UK moves forward with the energy transition."

Sommerfeld said it was essential that policy gaps facing the sector today were addressed to further strengthen existing biomass supply chains.

"Now is the time for Government to re-assert its commitment to delivery of a strong biomass sector, already operating within a stringent sustainability governance regime, ensuring bioenergy remains an example of strong UK leadership around the world."

Portuguese firm acquires UK biomass plant

Portuguese energy firm GreenVolt and fund manager Equitix have purchased a 44 MW biomass power plant in the south-east of England to operate on waste wood.

The fully operational renewable energy plant is situated in the port of Tilbury, in the county of Essex.

GreenVolt has obtained a 51% share, with Equitix taking the remaining 49%, for a total cost of €287 million.

"Tilbury Power Plant is situated approximately 25 miles from central London, and it is therefore strategically located to process waste wood for the area, with few alternatives in the vicinity," the firms said in joint statement.

"Its design is based on conventional grate and boiler technology from reputable suppliers and plays a key role in meeting the UK's climate objectives by providing renewable baseload capacity."

The firms said Tilbury Power Plant had been built to a "robust specification" based on proven modern technology, and was considered one of the highest specification plants in the United Kingdom.

"The plant benefits from long-term contracts covering all key operational areas and a stable and highly visible cash flow generation, with a remuneration framework underpinned by RPI-indexed ROCs through to 2037 and useful life until 2054."

Supply is fully covered by a 16-year fuel supply agreement covering 100% of the plant's requirements, it added.

Meanwhile, GreenVolt in late June announced its intention to raise €150 million through a stock market listing on Euronext Lisbon to fund its expansion.

"After over 20 years of history of constant evolution into what GreenVolt is today, our company continues to be fully committed to its roots and principles of creating economic value to shareholders, people and society in a sustainable way," said João Manso Neto, CEO of GreenVolt.

He said the IPO would make the firm's value visible, to be shared with market investors, and provide it with capital independence to continue to fulfil its growth ambitions.

"This will be a unique opportunity for investors to participate in the consolidation strategy of our leading biomass activity and our clear plan to address the growing European Renewables market through a major pan-European player in development, with ample capabilities in the most project-scarce European markets," he added.