

# Biomass Market Update

## Russian supply declines

**(RBCN) European wood pellet prices have risen sharply over the past quarter as supply from Russia and Belarus slows due to the war in Ukraine, with many western buyers now shunning material from the two countries.**

12 industrial wood pellets were seen at around €286/t (US\$302/t) CIF ARA, up €25 against the previous quarter, according to a survey of market participants. ENplus A1 residential pellets were assessed at a significant €44 premium to the I2 price.

“The fact is that Russian and Belarussian pellets are not coming to Europe very much now,” said a Scandinavian biomass trader.

“Deliveries were allowed up into early July, under certain circumstances. But they are coming to a halt – there will be a total stop,” he said.

This comes as European countries take steps to punish Russia – and its allies – for the ongoing invasion of Ukraine, which began in late February, through banning the import of some commodities, such as biomass, and coal, as of 10 August.

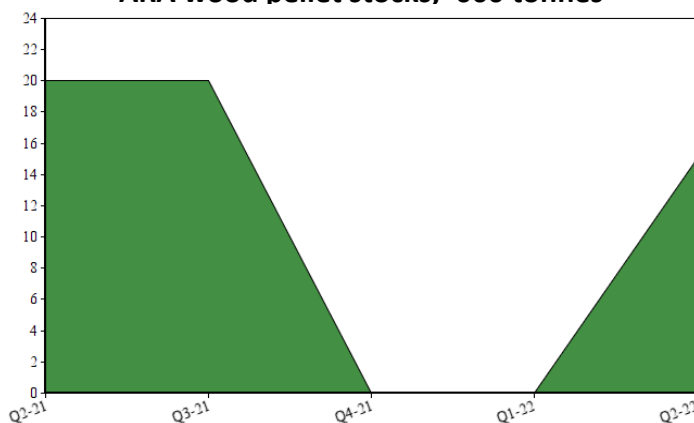
The trader said this would most likely result in demand destruction – with consumers reducing operations – rather than replacement supplies, as the market remained very tight.

“[Alternative] supply is very limited from the Baltics and the Americas,” he said.

RBCN Wood Pellet Price and Stock assessments		
	End Q2 2022	Vs. Q1 2022
Industrial (I2), CIF ARA	€ 286/t	+9.6%
ENplus (A1), CIF ARA	€ 330/t	+25%
ARA stocks, tonnes	20,000	+20,000

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

**ARA wood pellet stocks, '000 tonnes**



Some utilities and generators, such as Denmark's Orsted and Drax in the UK, had already unilaterally decided not to take Russian pellets.

“Orsted was probably one of the biggest European consumers of Russian pellets, but is not taking any now,” the trader said, noting however prices remained strong, with the reduction in supply so far outstripping any slowdown in demand.

“The very elevated price levels we saw coming out of the heating season have levelled out rather than going down, as prices typically do over the summer,” he said. *Continues on p.2...*

Wood Pellet Imports*, tonnes	Q1-22	Q4-21	Year-to-date	vs. Q1-21	vs. YTD-21
Netherlands	558,101	587,606	2,767,195	-7%	-7%
UK	2,066,563	2,370,144	8,913,598	0%	0%
Belgium	231,045	120,149	692,768	39%	39%
Denmark	757,449	560,190	2,103,489	-13%	-13%
<i>Of which in Q1-21</i>	<b>US</b>	<b>Canada</b>	<b>Russia</b>	<b>Portugal/Spain</b>	<b>Baltics**</b>
Netherlands	328,519	21,765	140,798	498	66,521
UK	1,280,099	344,344	75,856	39,439	326,826
Belgium	93,947	33,459	55,479	0	48,161
Denmark	221,108	27,499	79,410	23,318	406,114

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

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*Continued from p.1...*

“We see prices at just over US\$ 300/t, but this is more theoretical, as there is virtually no volume to trade.”

Another European biomass trader agreed with the price assessments, noting “demand is still good, as I haven’t seen any plants offline recently. There are no signs of weakness for the market at present”.

Drax said in a trading update that the removal of Russian biomass cargoes from European supply chains had indeed led to higher prices and lower availability in the small European spot market. It said this in turn had added incremental costs and limited the potential to source additional cargoes to support growing levels of generation this year.

“Drax previously sourced a small volume of Russian and Belarussian biomass, which it has now removed from its supply chain,” it said, adding “the biomass that Drax uses comes from stable, sustainable markets in North America and Europe and is sourced under long-term fixed formula contracts.”

Meanwhile, combined stocks at several monitored Amsterdam, Rotterdam and Antwerp (ARA) import terminals rose to 15,000t tonnes, from zero at the end of the previous quarter, RBCN estimates showed.

“As with many other products, wood pellet imports remain at a high level,” said a source at one import terminal, adding however “we saw less tonnage arriving just after the war in the Ukraine started”.

He noted certification of pellets “seemed to be an issue”, while availability of pellets out of Russia and Belarus was also “problematic”.

But he said over the coming weeks pellet imports to Rotterdam were expected to pick up.

Residential pellet demand was also strong, as consuming nations attempted to replenish inventories amid an ever tightening market.

“The Italian consumer market is paying as much as €400/t for premium pellets, as inventories are fairly low,” said the second trader.

“In northwest Europe, it would be at least €350/t, but northern Europeans are not paying that yet,” he added.

## **Drax opens new US pellet plant**

**UK-based Drax Group – the world’s leading producer and user of sustainable biomass – has opened a new 360,000 tonnes/year pellet plant at Demopolis, in the US state of Alabama.**

Drax said its US plants helped support employment and opportunities across the wider forestry and lumber sectors in Alabama with around 350 people employed during construction of the new plant, and 120 people employed directly by the renewable energy company at its two pellet plants in Demopolis in Marengo County and Aliceville, in Pickens County.

Including Demopolis, Drax’s operates seven pellet plants in the US south, which use biomass sourced from the region’s sustainably managed working forests.

The Demopolis and Aliceville pellet plants support Drax’s plans to increase pellet production to meet growing demand in Europe and Asia for renewable electricity, which helps displace coal from energy systems, reducing emissions in line with global climate targets, it said.

Drax also has plans to develop bioenergy with carbon capture and storage (BECCS).

“This vital negative emissions technology permanently removes carbon dioxide from the atmosphere whilst also generating renewable power – no other technology can do both,” Drax said.

## **Estonian pellets meet Dutch requirements**

**The Dutch Emissions Authority (NEA) has found that Estonian biomass supply for the Dutch energy sector complies with the established sustainability requirements, and that Graanul Invest is correctly mitigating any increased risks, the Estonian wood pellet producer said**

“Graanul welcomes the report, which includes important viewpoints and recommendations regarding the sustainability of biomass in Estonia,” it said.

On 21 June, the Dutch Ministry of Economic Affairs and Climate published the report by the NEA on the sustainability of biofuels in Estonia. The NEA, as the independent supervisor on climate policy, was asked to assess whether certification to Graanul was granted according to the approved sustainability requirements.

“The NEA concludes that biomass supplied to the Netherlands from Estonia by Graanul complies with the Dutch legal sustainability criteria,” the producer said, adding there had been no indications that forests in Estonia were being managed in an unsustainable manner.

“Graanul Invest has very strict regulations for materials used and very strict sustainability requirements to source feedstock through legal and sustainable supply chains and forests,” it said.

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## Orsted to capture 400kt of CO<sub>2</sub> a year

**Danish energy firm Orsted will capture and store 400,000 tonnes of carbon a year from mid-decade at two of its biomass-fuelled stations.**

Leola, in The utility was planning to establish carbon capture at its wood chip-fired Asnaes power station in Kalundborg on western Zealand and at the Avedore power station's straw-fired boiler in the Greater Copenhagen area, it said in a press note.

"The technology and logistics for handling and storing carbon from the two combined heat and power (CHP) plants are in place, and if financial support is obtained from the current tender for carbon capture and storage, Orsted can be ready to capture and store 400,000 tonnes of carbon as early as 2025," it said.

Ole Thomsen, senior vice president at Orsted said the captured carbon would be stored in the North Sea.

"This will contribute significantly to realising the politically decided climate target for 2025," he added.

Orsted said the two CHP plants boasted the best possible infrastructure, as they were linked to the grid and the district heating system and had their own harbours.

"Thus, they can act as hubs for the handling and shipping of both carbon and green fuels," it noted.

Orsted's CHP plants would not only serve as hubs for the capture and shipping of its own carbon, but also for shipping carbon produced by other players.

"Our carbon capture plans are based on our newest CHP plants which will be in operation for many years to come, and which run on sustainable straw and wood chips," Ole Thomsen said, adding "it's already become evident how other companies with captured carbon can use our hubs as well."

He said Kalundborg refinery was the first potential partner, but there were several other players with carbon emissions where Orsted also saw a potential for collaboration.

"The entire supply chain is already in place, so the first volumes can be shipped and stored from 2025."

Asnaes power station and Kalundborg refinery will focus on carbon capture and storage, while the straw-fired boiler at Avedore power station has been designated for capturing and delivering some of the carbon to the initial phases of the Power-to-X project 'Green Fuels for Denmark' where the ambition

is to develop green fuels for the shipping and aviation industries.

Consequently, the straw-fired boiler at Avedore power station would be able to deliver carbon for storage and for Power-to-X and to function as a hub for other players with carbon emissions in the Greater Copenhagen area, the utility said.

Orsted's carbon capture plans are concentrated on the newest CHP plants with many years of operation left.

The utility estimates that, in future, it will be possible to meet the need for sustainable biomass for the company's CHP plants from straw and wood chips primarily from Denmark and neighbouring countries in the Baltic region.

Therefore, Orsted has decided to reduce the use of imported wood chips from 2030, as the existing wood chip-fired boilers reach the end of their service lives, and the process of increasing the proportion of Danish wood chips at the wood chip-fired power stations has already been initiated.

From the mid-2030s, Orsted expects to primarily use Danish biomass as fuel for its boilers.

### Decline in consumption

"Biomass consumption in Denmark will decrease in line with the increasing electrification of heat generation," the firm said, noting that according to the Danish Energy Agency, Denmark would, however, continue to need a certain amount of sustainable biomass – in combination with heat pumps, electric boilers, and Power-to-X plants – to maintain the high level of reliability of supply that Danes are accustomed to.

"Therefore, it is necessary to maintain a supply chain of sustainable wood chips and straw".

Until the wood chip-fired CHP plants reach the end of their service lives, Orsted will continue to only use certified wood chips that are produced from sawdust and other wood residues from sustainably managed forests.

"Foreign wood pellets and wood chips are still a good and climate-friendly energy source when coming from certified sustainably managed forests," Ole Thomsen said.

"However, it makes a lot of sense to primarily use biomass from areas which are closer to home and thus get as close as possible to the supply chains to reduce the need for transport," he added.