

Biomass Market Update

Winter challenges ahead

(RBCN) Europe’s wood pellet market faces a combination of regulatory pressure, supply constraints, and cost challenges as the winter season approaches with traders and producers alike watching closely to see how these factors will influence demand and pricing in the coming months.

12 industrial wood pellets were assessed at an average of around €175/t (\$196/t) CIF ARA, which was up by around €25 – or 17% – from the previous quarter, according to a survey of market participants. ENplus A1 residential pellets were seen at a €15-20 premium to the I2 price.

Despite the overall weak demand, there had been a noticeable increase in spot trading activity as buyers moved to secure supplies ahead of the European Union Deforestation Regulation (EUDR), which comes into effect at the end of the year.

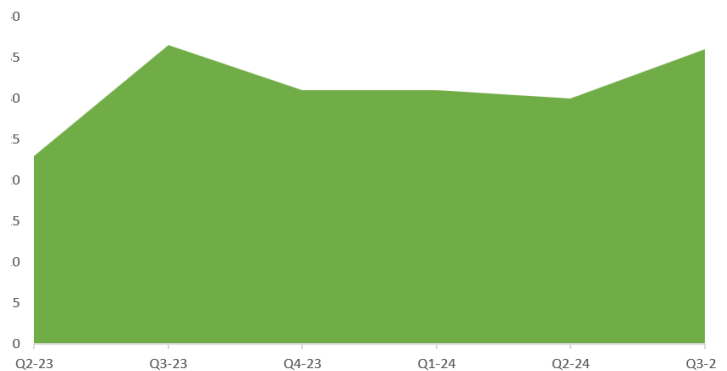
This new regulation will impose stricter documentation requirements on importers of forest products, including wood pellets, forcing importers to prove that no deforestation has occurred throughout the supply chain, one trader said.

The complexity of these requirements, including the need to provide GPS coordinates for the origin of the wood, is expected to place a significant administrative

RBCN Wood Pellet Price and Stock assessments		
	End Q2 2024	Vs. Q1 2024
Industrial (I2), CIF ARA	€ 175/t	+16.7%
ENplus (A1), CIF ARA	€ 195/t	+8.3%
ARA stocks, tonnes	36,000	+20%

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

ARA wood pellet stocks, '000 tonnes



burden on companies, particularly smaller firms.

“Some buyers are taking advantage of the current spot market to pick up cargoes before the new regulation comes into force, fearing that future supply could be disqualified under the stricter rules,” said the trader.

This had led to a slight uptick in prices, with recent spot deals closing at around \$175/t CIF ARA, compared to the summer lows of \$140/t, he said.

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Wood Pellet Imports*, tonnes	Q2-24	Q1-24	Year-to-date	vs. Q2-23	vs. YTD-23
Netherlands	290,242	217,793	508,035	-49%	-54%
UK	2,063,675	2,199,049	4,262,724	44%	45%
Belgium	59,118	36,466	95,584	-41%	-72%
Denmark	251,504	339,608	591,111	-11%	-21%
<i>Of which in Q2-24</i>	US	Canada	Russia	Portugal/Spain	Baltics**
Netherlands	229,903	59,991	0	93	256
UK	1,792,046	205,555	0	487	65,586
Belgium	54,926	237	0	0	3,955
Denmark	71,217	0	0	4,293	175,994

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

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“While these prices represent a modest recovery, the market remains cautious, with many producers waiting for prices to rise closer to \$200/t before ramping up production to full capacity,” he added.

The high cost of pellets, particularly in comparison to other energy sources, had dampened demand, especially for large biomass plants, agreed an Italian trader.

While there was some demand in Poland, traders were beginning to question whether biomass was a sustainable solution in the long term, given the high costs involved, he said.

On the supply side, combined inventories at several monitored Amsterdam, Rotterdam and Antwerp (ARA) import terminals have risen by 6,000 tonnes – or 20% – compared with the end of the previous quarter, to around 36,000 tonnes, RBCN estimates showed.

The loss of Russian wood pellet supply, which has been banned from entering the European market since 2022 due to ongoing sanctions linked to the war in Ukraine, has further tightened the market, another trader said.

Elsewhere, US-based producer Enviva continued to operate under Chapter 11 bankruptcy protection, allowing them to renegotiate long-term contracts and secure better pricing, the second trader said.

But while production had continued, the company’s restructuring had introduced uncertainty into the market, with many questioning the long-term stability of their output.

Looking ahead, there were mixed expectations for winter demand. While spot prices have recovered slightly, long-term contracts for winter deliveries were trading at a premium, with sellers asking for prices between \$180/t and \$200/t.

Although there are no immediate concerns about a supply shortage, the second trader said producers were hesitant to increase output unless prices rose to more profitable levels.

Drax hikes pellets output 21%

Independent UK generator Drax reported a 21% increase in pellet production in the first half of the year, reaching 2.5 million tonnes, according to the company's half-year results.

Drax cited “enhanced reliability and operational efficiency” for the substantial increase in pellet production at its production facilities in North America.

The firm said a key focus had been on supply chain optimisation, with improvements made to sourcing, transportation and storage management. This included expanding storage capacity at its deep-water ports, which allows for better inventory management and a more flexible response to market demand, it said.

Drax’s ability to integrate its biomass supply chain – from pellet production to power generation – helped it manage market volatility and improve overall cost efficiency, it said.

The company achieved a reduction in cost per tonne, driven by logistics improvements and better utilization of raw materials, which include increasing the proportion of low-cost wood residues and forest by-products, it added.

Drax stressed that sustainability remained a cornerstone of its biomass operations. The company continued to enhance its environmental footprint by increasing the use of sustainably sourced wood residues and other by-products in its feedstock, reducing dependency on high-cost raw materials. This initiative aligned with broader efforts to ensure compliance with sustainability standards and mitigate the carbon impact of biomass energy, it said.

Looking ahead, Drax said it was focused on scaling its pellet production capabilities to support future growth, particularly its Bioenergy with Carbon Capture and Storage (BECCS) projects. The company has set a target to expand its production capacity to 8 million tonnes per annum by 2030.

Financially, the biomass and pellet segment was a significant contributor to Drax’s overall results, helping the company achieve an adjusted EBITDA of £515 million, up from £417 million in the same period last year.

Meanwhile, Drax has announced plans to invest as much as \$12.5 billion in the development of biomass power plants with BECCS technology in the US over the next decade.

The move underscores the company’s efforts to expand internationally while maintaining its UK presence.

As part of this initiative, the company’s Houston-based subsidiary, Elimini, is exploring more than 20 potential sites for the construction of BECCS facilities.

Elimini currently employs about 100 staff and plans to have its first project operational by 2030. The initial US project will require a \$2.5 billion investment.

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EDF cancels biomass plant plan

French utility company EDF has decided to halt its plans to convert its 1.2 GW coal-fired Cordemais 2 plant to biomass and will instead cease power production at the site by 2027.

The move comes after EDF concluded that the technical and economic conditions required for the biomass conversion could not be met.

The initial plan involved constructing a pellet manufacturing plant at the Cordemais site in western France, which would have allowed for the replacement of coal with biomass pellets by 2027. However, EDF said in a statement, "After analysis, as the technical and economic requirements for this project have not been met, EDF will not be able to completely substitute coal with pellets."

EDF has expressed its intent to maintain some industrial activity at the Cordemais site despite the decision. The company, through its subsidiary Framatome, plans to establish a facility for the production of pipes used in new-generation European pressurised reactors (EPRs). The plant is expected to employ around 100 workers initially, with that number increasing to approximately 200 at peak operation.

However, this alternative plan has drawn criticism from local unions and political figures. The CGT energy union, which had been advocating for the biomass conversion, expressed disappointment, arguing that the decision would result in significant job losses.

EDF's decision to pull the plug on the biomass conversion at Cordemais raises broader questions about France's approach to phasing out coal and transitioning to renewable energy. The government's pledge to reduce reliance on coal by converting plants to biomass was seen as a cornerstone of its strategy to meet climate targets. With EDF abandoning this project, the future of France's energy transition appears less certain.

EU regulation to curb deforestation enters into force in 2025

A new EU regulation targeting global deforestation will come into effect on 30 December, raising market concerns about potential restrictions on certain wood pellet imports.

The law aims to ban the import and export of commodities

linked to deforestation, including cattle, cocoa, coffee, palm oil, and wood, unless they meet strict sustainability criteria. The regulation requires companies to prove that products entering or leaving the EU do not contribute to forest degradation.

These products, often linked to deforestation, will now require proof that they were produced on land that has not been subject to deforestation after 31 December 2020.

The regulation is part of the EU's broader Green Deal initiative to promote sustainability and reduce the EU's role in global environmental degradation. This step builds on the EU's earlier efforts to combat illegal logging, such as the 2010 Timber Regulation, which the new law replaces.

Under the new regulation, companies will need to provide a due diligence statement for products being placed on the EU market. This statement must confirm that the commodities do not come from land that has been deforested or degraded since the 2020 cut-off. Additionally, companies must ensure that the products comply with the local laws in the producing countries, such as land-use and labour rights legislation.

Failure to comply will result in penalties, including fines proportional to the environmental damage caused by non-compliant goods. The regulation also includes provisions for strict monitoring and reporting mechanisms, making use of geolocation data and satellite imagery to verify the deforestation status of land used for commodity production.

As the EU is a major consumer of these commodities, the regulation is expected to have a far-reaching impact on global supply chains, particularly in regions like South America, Southeast Asia, and Africa, where deforestation is a significant issue. Countries exporting these goods to the EU will need to implement stronger safeguards and verification processes to continue trading with the bloc.

The EU said it has committed to working with partner countries to ensure a smooth transition, providing technical and financial assistance where needed. This regulation is also intended to contribute to the EU's climate goals, including its commitments under the Paris Agreement to reduce greenhouse gas emissions and preserve biodiversity.

Environmental groups have praised the regulation as a critical step in the fight against deforestation, particularly for its focus on protecting forests and biodiversity. However, biomass industry groups have expressed concerns about the costs and logistical challenges of compliance, especially for small-scale producers.

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Graanul Invest Releases 2023 Sustainability Report

Leading producer of sustainable biomass and bio-energy, Graanul Invest, released its 2023 Sustainability Report which highlighted the company's ongoing commitment to sustainability, environmental protection, and safety, while showcasing key achievements from the past year.

The 2023 report detailed several ESG (Environmental, Social, and Governance) milestones, with a strong focus on reducing greenhouse gas emissions, increasing renewable energy production, and implementing enhanced sustainability practices across its operations.

Nicholas B. Dottino, CEO of Graanul Invest, emphasized the company's dedication to workplace safety, citing it as a top priority. "Safety is paramount to us. We are committed to achieving zero work-related incidents and accidents. In 2023, we continued to produce high-quality, sustainable products with remarkable reliability, reaffirming our status as a leader in the bioenergy sector despite the year's challenges. Graanul Invest celebrates its 20th anniversary with dignity and confidence, stronger than ever," Dottino said.

Among the key accomplishments in 2023, the company reported a total of 287,743 CO₂e tons of greenhouse gas emissions, with a significant 11% reduction in Scope 1 emissions compared to the previous year. The company also included Scope 3 emissions in its sustainability accounting for the first time.

Graanul Invest achieved strong results in renewable energy and heat production, driven by its six modern combined heat and power (CHP) plants located in Estonia and Latvia. These plants, along with energy-saving initiatives such as power factor corrections and facility upgrades with energy-efficient equipment, contributed to the company's sustainability goals.

The report also highlighted efforts to reduce freshwater consumption through innovative water reuse practices at its CHP plants, further minimizing the company's environmental footprint.

Employee engagement and community involvement were also emphasized in the report, with high employee satisfaction scores, a focus on safety, and ongoing development programs. Additionally, Graanul Invest maintained a strong com-

mitment to human rights, diversity, and its local communities.

Looking toward the future, Graanul Invest has initiated an action plan aimed at ensuring compliance with the Corporate Sustainability Reporting Directive (CSRD) by 2026. The company's governance strategy was strengthened through a double materiality assessment, helping to map out critical sustainability topics

Chief Sustainability Officer Mihkel Jugaste commented on the challenges faced during the year: "Our sustainability performance and credibility were tested in 2023. Despite market and operational challenges, we upheld our principles, making significant strides in value chain digitalization and safety training. Our commitment to continuous improvement remains strong."

As Graanul Invest marks its 20th year in business, the company remains dedicated to its mission of promoting renewable energy, reducing dependence on fossil fuels, and contributing to the climate goals outlined in the Paris Agreement. With twelve state-of-the-art pellet plants across the Baltics and the US, and six cogeneration plants in Estonia and Latvia, Graanul Invest continues to lead the way in sustainable energy solutions and climate change mitigation.

CM Biomass leadership team makes changes

CM Biomass has announced that, after mutual agreement, Morten Buchgreitz has stepped down from his role as CEO of CM Biomass.

The firm noted that during his time with CM Biomass, Morten Buchgreitz had contributed to the professionalisation and structuring of the company's internal procedures and risk management, as well as the development of CM Biomass' strategy for the coming years.

"The Board of Directors is now focused on identifying a new CEO with a clear commercial profile to guide the company in its next phase of growth," it said, adding that the performance of the company could especially be attributed to CM Biomass' robust strategy, agile business model, and its dedicated employees.

In the interim, Ask Michael Munck, CFO of CM Biomass, will assume the role of Acting CEO. He has been with CM Biomass since 2022 and brings an in-depth knowledge of the company, its operations, and its ambitions, it noted.

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