

# Biomass Market Update

## Pellet market gains ground

**(RBCN) The price of wood pellets for delivery in north-west Europe has risen sharply over the past three months, as heightened demand erodes an earlier surplus in supply.**

The price estimate for I2 industrial wood pellets rose by € 21 compared with the previous quarter to an average of € 140/t (US\$ 166/t) CIF ARA, while ENplus A1 residential pellets kept a premium of around € 10/t.

“There has been a pretty big change [from the previous quarter], as the market has gone from extremely soft, and poor, to a relatively tight and normal situation,” said a European biomass trader.

“There is spot demand for handymax cargoes from North America, and for coasters from Europe,” he said, noting some new demand – particularly from Denmark – had given the market a welcome boost.

“It’s hard to find [spot] industrial pellets and almost impossible to find residential pellets,” he said, adding there was however quite a wide range of prices at present, with distressed cargoes trading at as low as € 135/t CIF ARA, and later stems changing hands at up to € 145/t CIF ARA.

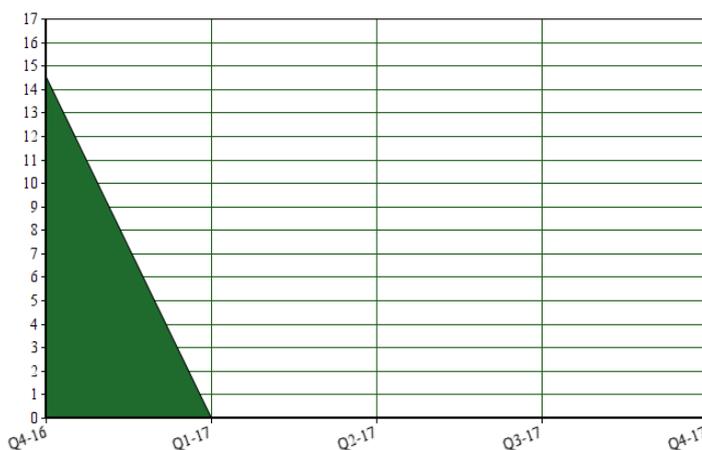
The UK-based Drax power plant – a key European consumer of pellets – carried out some planned and unplanned maintenance work on two of its 645 MW biomass-fired units in mid-December, but this had little impact on overall power generation – or biomass consumption – levels, according to company outage data.

And although delays to the start-up of EPH’s 396 MW UK-based Lynemouth biomass-fired plant resulted in some distressed material being pushed onto the Atlantic spot market (see page 2), there has so far been ample demand to absorb any surplus cargoes, market participants said.

RBCN Wood Pellet Price and Stock assessments		
	End Q4 2017	vs. End Q3
Industrial (I2), CIF ARA	€ 140/t	17.6%
ENplus (A1), CIF ARA	€ 150/t	16.3%
ARA stocks, '000 tonnes	0	No change

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

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



But they said any longer-term delays to the plant reaching full capacity could result in some overhang in regional supply.

“The market is tight, despite the fact it has not been unseasonably cold in northern Europe,” said another trader.

“During the period of oversupply, earlier this year, there had been some curtailment of production at a number of sites, but no big closures. Now, no one is operating at reduced capacity by choice,” he said.

Wood Pellet Imports*, tonnes	Q3-17	Q2-17	Year-to-date	vs. Q3-16	vs. YTD 2016
Netherlands	54,744	15,483	77,186	399%	58%
UK	1,680,655	1,788,439	5,291,415	0%	-2%
Belgium	288,632	182,898	719,491	23%	-4%
Denmark	282,145	305,400	1,261,175	135%	78%
<i>Of which in Q3-17</i>	<b>US</b>	<b>Canada</b>	<b>Russia</b>	<b>Portugal/Spain</b>	<b>Baltics**</b>
Netherlands	633	0	21,686	14,354	18,071
UK	933,762	380,872	34,488	44,703	286,830
Belgium	192,273	0	89,311	6,416	633
Denmark	27,060	0	85,076	40,072	129,937

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

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## European pellet imports rise in Q1-Q3

**(RBCN) Total wood pellet imports in the first three quarters of the year to the Netherlands, UK, Belgium and Denmark, rose 6% against the corresponding period last year, to 7.3m tonnes, according to Eurostat data.**

The increase mainly reflected an 84% surge in imports by Denmark, which totalled 1.3m tonnes over the first nine months of the year. The Netherlands also took 47% more, year on year, totalling 72,000 tonnes. This offset minor declines in UK and Belgian imports, of 2% and 4%, respectively, to 5.3m tonnes and 720,000 tonnes.

## Lynemouth aims for early 2018 start

**(RBCN) EPH's 396 MW UK-based Lynemouth biomass-fired plant will reach full capacity by March 2018, according to company data.**

The first of three units, currently being converted from coal to biomass, is scheduled to come online in mid-January, at just 10 MW, increasing to the full 132 MW by early February.

The second unit will begin operations in early February and reach full capacity by the end of the month, while the third unit will come online in late February and reach full capacity by mid-March.

"Lynemouth was supposed to begin operating at full capacity in November, but has been delayed," said a biomass trader, noting some volumes that Lynemouth had already secured had been sold onto the spot market.

"Some 120,000 tonnes went really quickly, but if the plant doesn't start up soon, around 100,000t a month will need to find a home," he said.

Czech-based EPH acquired the plant from German utility RWE in January 2016.

Separately, in mid-December, EPH acquired two Italian biomass-fired plants; Biomasse Italia and Biomasse Crotona.

They have a combined generation capacity of 78 MW.

## Carbon price floor boon for biomass

**(RBCN) The UK will keep its carbon tax unchanged at GBP 18.08/t until all unabated coal-fired plants are closed, mid-next decade, in a decision welcomed by leading UK biomass consumer Drax.**

"The government is confident that the total carbon price, currently created by the combination of the EU ETS and the

carbon price support, is set at the right level," finance minister Philip Hammond said in the government's autumn budget.

"[We] will continue to target a similar total carbon price until unabated coal is no longer used," he said.

Dorothy Thompson, chief executive of independent generator Drax – which runs three of its six units on 100% wood pellets – said this "clarity" from the government would help to unlock further investment in low-carbon and renewable technologies.

"At Drax, we will now continue to explore new ways of converting our remaining coal generating units to biomass and gas, and build new rapid response gas plants," she said.

## Drax Biomass starts up US pellet plant

**(RBCN) Drax Biomass, a leading manufacturer of wood pellets, began production at its 450,000 tonnes/year LaSalle BioEnergy plant in Urania, Louisiana, in late November.**

The plant, which will employ approximately 78 workers, is the third pellet plant in the firm's portfolio, which also includes Morehouse BioEnergy in Bastrop, Louisiana, and Amite BioEnergy in Gloster, Mississippi.

A series of upgrades and repairs have been ongoing at the plant since the acquisition in early April 2017.

"LaSalle BioEnergy further demonstrates Drax Biomass's commitment to the revitalisation of the local wood products sector, which has suffered in recent years from the closure of several large-scale paper mills," it said.

## European pellet inventories evaporate

**(RBCN) Wood pellet inventory levels at several monitored Amsterdam, Rotterdam and Antwerp dry bulk terminals were still at zero at the end of the year, according to RBCN data.**

This was in line with the end of the previous quarter and down from 14,500 tonnes in late 2016.

"There are no pellets in stock, but transshipment will start early in January again," said a source at one terminal.

Stocks at the end of 2015 were at more than 50,000 tonnes but have declined over the ensuing two years. This in part reflected uncertainty over future legislation in the Netherlands governing biomass support levels.

"The Dutch are still not purchasing much yet, as they are waiting to see what will happen," said a European biomass trader.

## Demand outlook brightens

*Brodie Govan, of independent brokerage and consultancy firm Voyage Power, talks to RBCN about recent biomass market developments and the outlook for supply and demand in 2018.*

### What were the most important developments for European industrial wood pellet demand in 2017?

The arrival of new demand – from the likes of Lynemouth in the UK (see page 2), RWE in the Netherlands at the tail end of this year and Uniper next year – is a big factor. The market in Europe has been dominated by a small group of end users, so the addition of some new plants and demand has helped to grow the market.

### How do you see European demand in 2018?

I expect very strong demand in 2018, and the current momentum in the market to continue throughout the year. We are already seeing strong spot demand and we believe the outlook is very positive for suppliers, but perhaps challenging for any end users who still have demand.

### What is the outlook in 2018 for Atlantic supply?

I think we will see record exports, but it won't be enough to satisfy growing demand in Europe and Asia. We lost a number of production plants in the past few years due to the previously bearish pricing, and that has left the market short of pellets. We need to see some of those plants come back online, and also to see output levels increase from existing plants.

### How reliant is the European pellet market on just a few large consumers?

The market is less reliant [than in the past], with the addition of Lynemouth, and the Dutch co-firing. Plus, Engie remains a major player and consumer. So, while Dong (Ørsted) and Drax are dominant, this dominance is slightly diluted in 2018.

### Are the plans of various European countries to phase out coal over the next decade likely to benefit biomass demand, or have a negative impact?

It's difficult to say. The Netherlands, for example, seems keen to close coal plants completely, and that would also spell the end of co-firing. So the end of coal doesn't necessarily mean good news for biomass. It's been very positive in Den-

mark, but not replicated in Germany, so it differs among member states, depending on the decisions of each country.

### With demand increasing in Asia, will there be sufficient Atlantic supply in the coming years to meet any rise in European demand?

Not as it currently stands. Even putting Asia to one side, we still need a lot more production in North America to satisfy industrial and heating demand in Europe. The Asian dynamic just heightens the need for additional pellet production as more volume from British Columbia moves into the Asian market.

### Could we start seeing longer-haul arbitrage shipments, between Pacific-Atlantic suppliers and buyers?

Potentially, but the knowledge and crossover between Asia and Europe is making this more difficult. Prices are rising in both regions to limit any obvious arbitrage opportunities.

### Do you see much growth in spot trading for wood pellets, or at least a move away from longer-term contracts?

I'm not sure we have seen growth in the spot market. We have seen higher demand and more market participants, but major buyers still lock in the vast majority of their supply on longer-term contracts. The length of those contracts has dropped in Europe from ten to five years, but the spot market is still used for marginal volumes and occasional optimisation opportunities.

### What is needed to encourage growth in wood pellet futures trading?

More liquidity in the physical spot market, which in turn would help to make the Argus index more robust and accurate. Plus, more market participants. Until that happens I don't see much growth or demand for futures trading.

#### About Voyage Power:

Voyage Power has nearly ten years of in-house market experience in the industry, concluding physical and financial brokerage services to all sides of the biomass sector. The firm's global client list covers all sides of the sector ranging from utilities and end users, to producers and traders.

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