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Global wood pellet market update


7th International Bioenergy Conference & Exhibition


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Independent consultants to international pulp, paper & bioenergy industries



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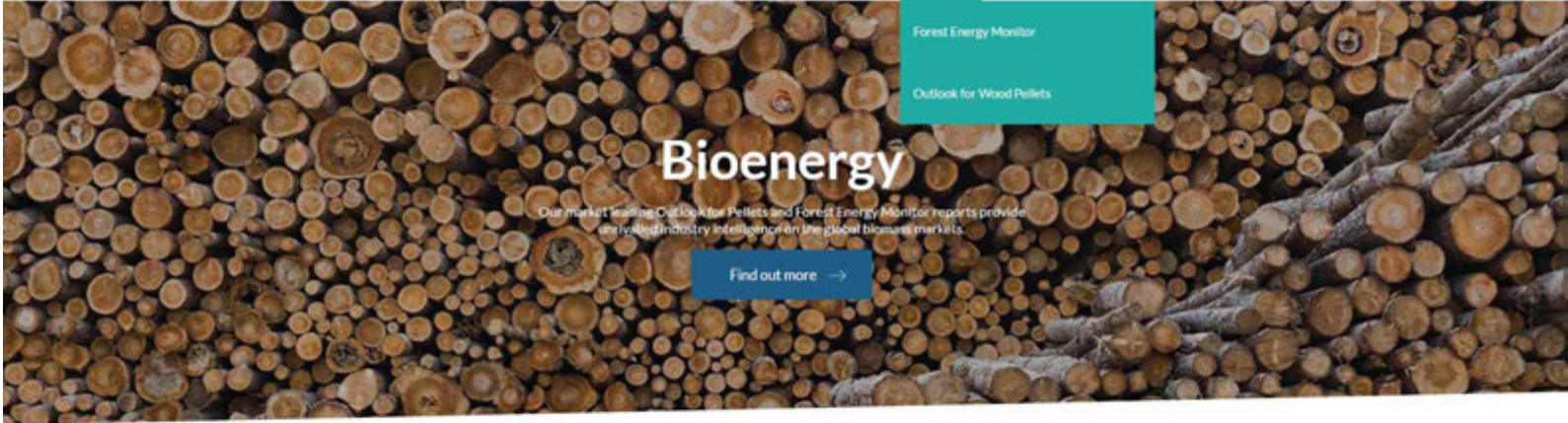
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Forest Energy Monitor
Outlook for Wood Pellets

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A large background image showing a dense stack of cut logs, used as a visual for the Bioenergy section.

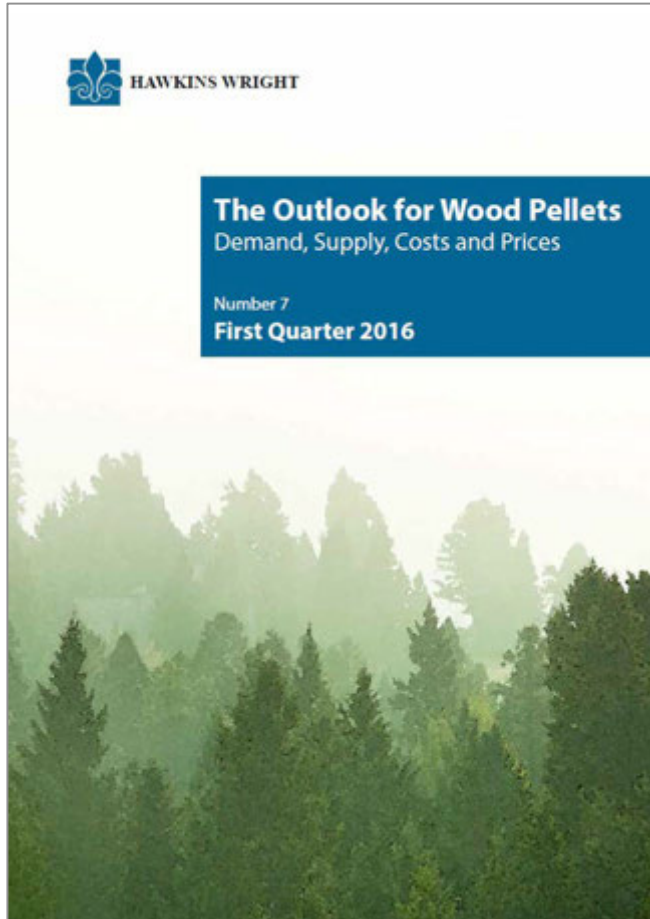
What we do

Hawkins Wright is an independent consultancy providing market intelligence and business information services to the international pulp, paper and bioenergy industries. These services include private consultancy assignments covering a full range of marketing and strategic subjects as well as regular multi-client reports and newsletters.

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Forest Energy monitor

BIOMASS & PELLETS — MARKETS — INVESTMENTS — LEGISLATION

Market analysis

- 1 Biomass market briefing
- 2 Biomass price indications
- 3 Wood fibre availability
- 4 Energy and carbon markets
- 5 Other forest product industries

Industry news

- 6 Investment and technology
- 7 BEE announces new Belgian biomass project
- 7 Lymemouth edges towards FID
- 8 Renewable energy employment falls in Europe
- 8 Vattenfall to build new biomass plant in Sweden
- 9 In brief...

Policy and legislation

- 10 SDE+ spring auction oversubscribed
- 11 Ireland's Programme for Government looks to bioenergy
- 11 USDA provides \$21M for sustainable bioenergy supply chains
- 12 In brief...

Market data

- 13 Wood pellet trade statistics
- 14 Fossil energy & carbon prices
- 14 Power generation economics
- 15 Heating market economics
- 16 Exchange rates and freight rates
- 17 Project list: biomass power/CHP
- 18 Project list: industrial pellet mills

German heating pellets regain competitive advantage over heating oil in May

German ENplus A1 pellet prices fell to €228.16/t in May, a reduction of -1.3% month-on-month and the lowest level recorded since April 2012, according to German pellet association DEPV. This was in conjunction with a +9.5% (€4.24/MWh) increase in German heating oil prices, which allowed wood pellets to regain their competitive advantage over heating oil for the first time in six months. The margin between the fuels remains tight, at just 1.1%, but pellet prices are unlikely to rally over the summer months and heating oil prices look set to rise further if this trend continues then the German heating pellet industry could be in a comparatively strong position by the beginning of the next heating season, improving the outlook for pellet boilers and stove sales over the coming year. Nevertheless, the 2015/16 heating season has undoubtedly been another warm one, in line with the 2014/15 heating season in Europe with 2015 being the warmest year on record.

Austrian heating pellets also strengthened their competitive margin against heating oil to 18.6% as prices slipped to €222/t, a decrease of -1.11%. Heating oil prices in the country increased +8.2% to €37.77/MWh. However heating oil prices in Germany and Austria remain, on average, -22.7% cheaper than May 2015 and are significantly lower across all European countries.

Prices of wood pellets in selected European countries

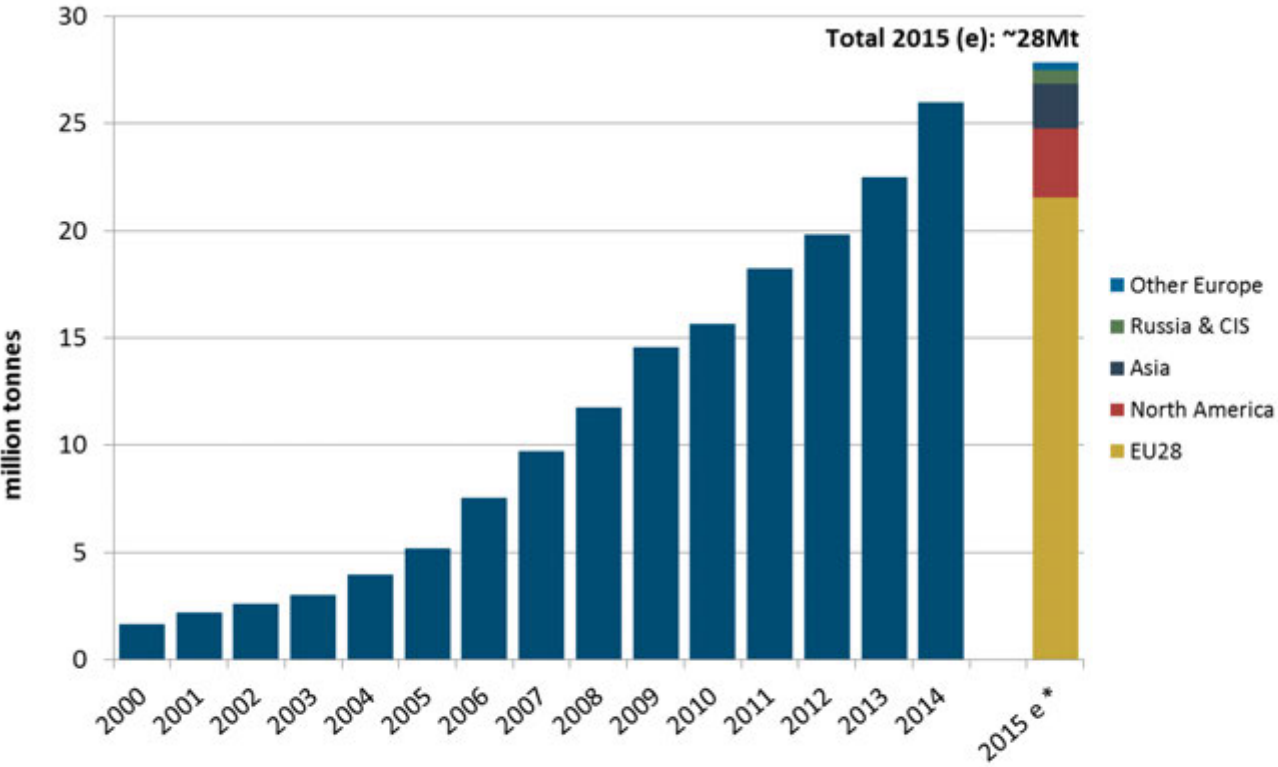
Source: See the footnotes beneath the price indications table, page 3.

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Global market overview

Global wood pellet production



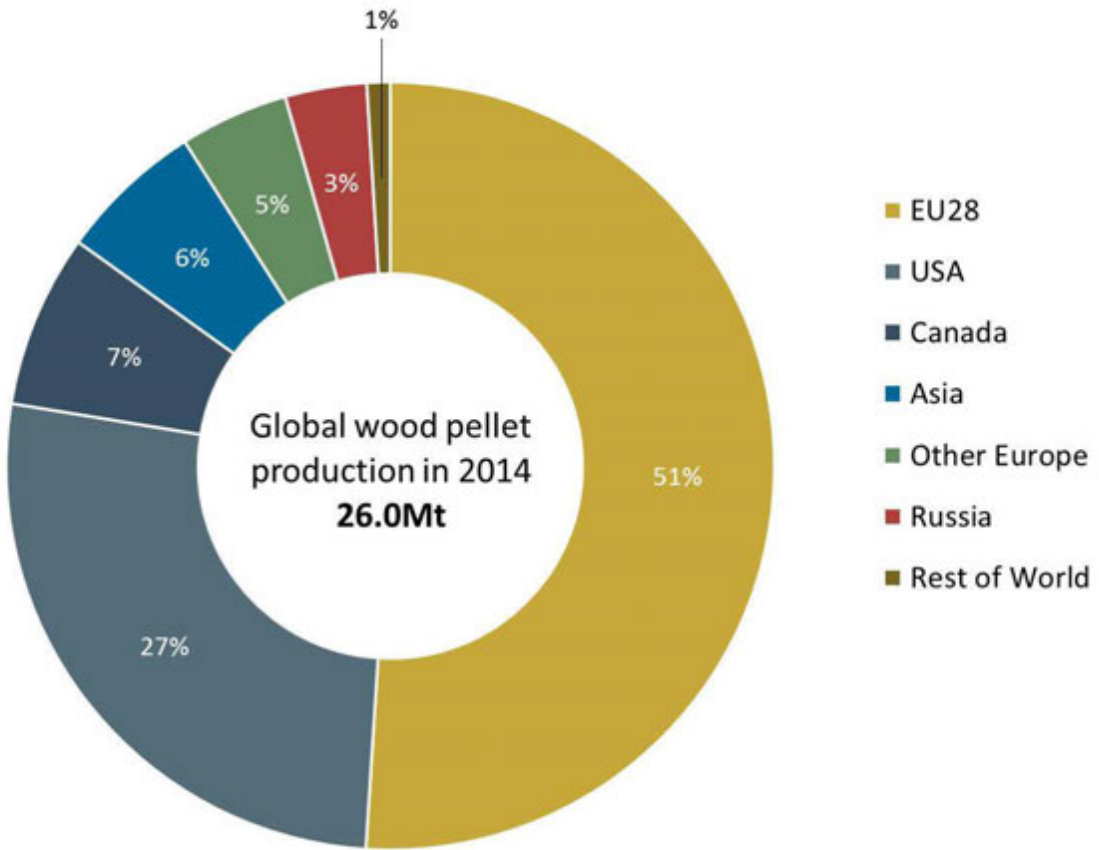
- Consistent year on year growth driven by increasing global demand
- 2015 estimate of demand = 28Mt

Sources: REN21, FAO, AEBIOM and Hawkins Wright

*2015 figures show Hawkins Wright estimate of demand



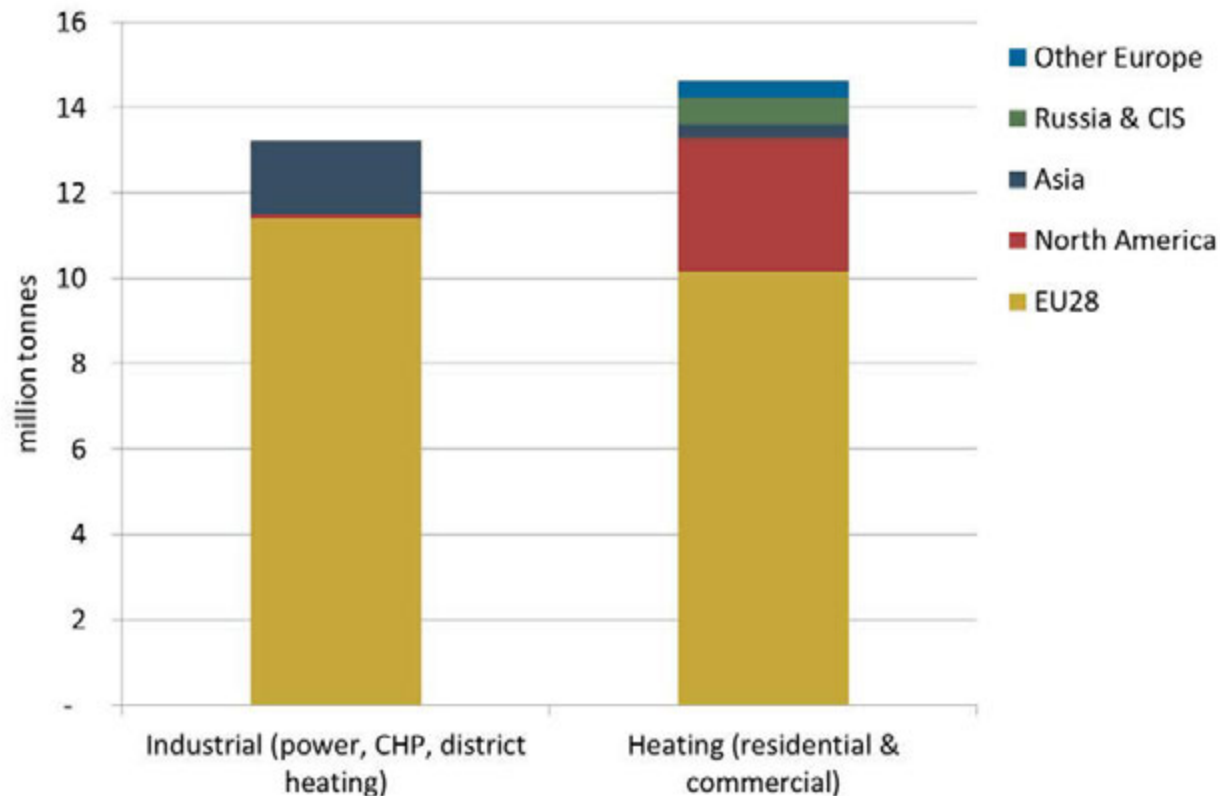
Europe remains the biggest producer (and consumer) of wood pellets...



Sources: REN21, FAO, AEBIOM and Hawkins Wright

Global wood pellet demand

In 2015 = 28Mt (Heating = ~15Mt, Industrial = ~13Mt)



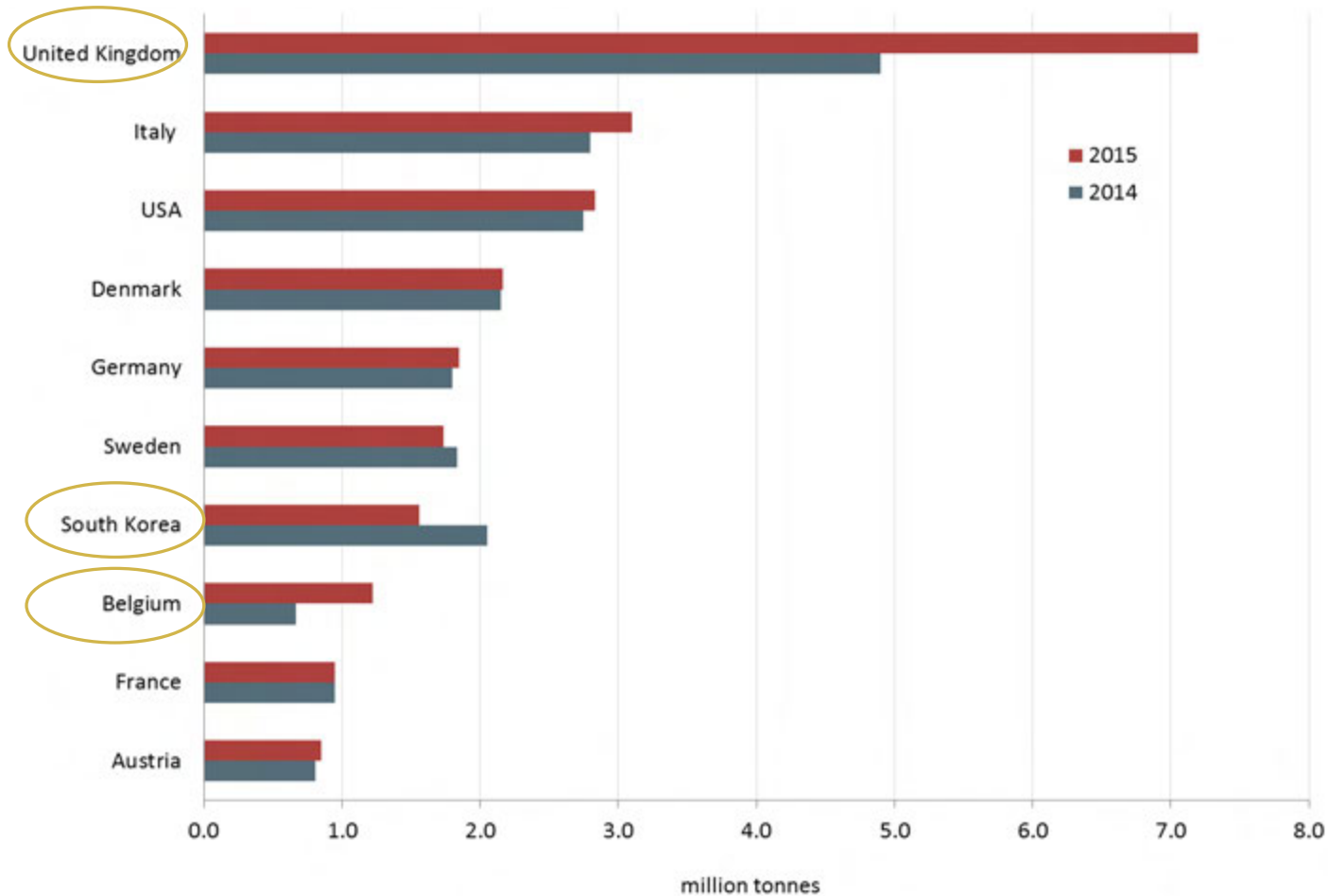
- Overall demand increased 13% from 2014 to 2015
- The majority of growth occurred in the industrial market
- But Asian share of demand slipped in 2015

Source: Hawkins Wright, the Outlook for Wood Pellets



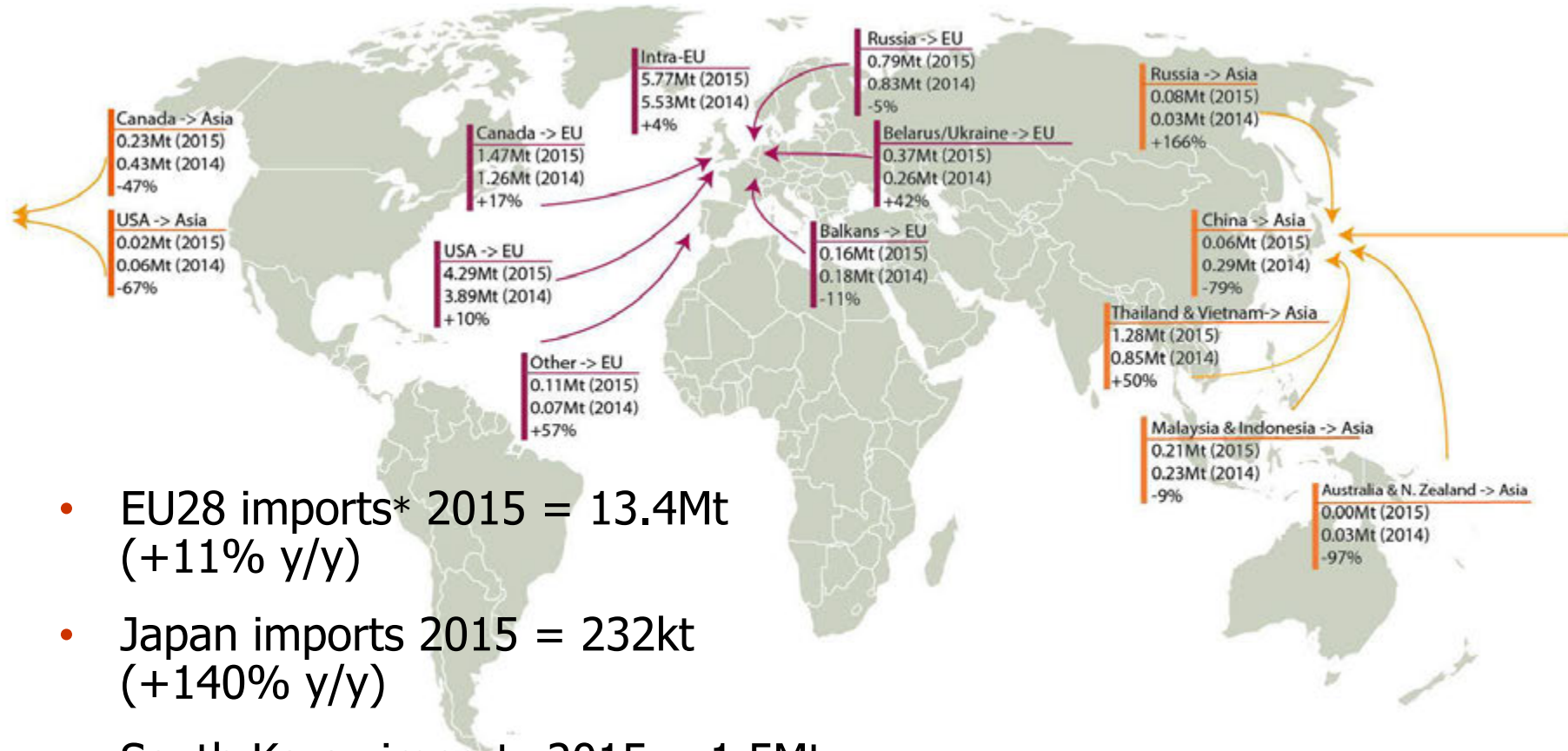
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Top ten wood pellet consuming countries 2014 vs 2015



Source: Hawkins Wright, the Outlook for Wood Pellets

Total volume of global trade in 2015 = ~15Mt*



- EU28 imports* 2015 = 13.4Mt (+11% y/y)
- Japan imports 2015 = 232kt (+140% y/y)
- South Korea imports 2015 = 1.5Mt (-20% y/y)

Sources: Eurostat, Japan & Korea customs data

*Including intra-Europe - not all trade is seaborne



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2015/16: Market oversupply



- Despite demand growth of +3.3Mt in 2015, pellet prices fell throughout 2015 and continue to fall to record lows in 2016.
- We are now seeing production capacity closures, low capacity utilisation rates, and projects failing to reach financial close.

Why?

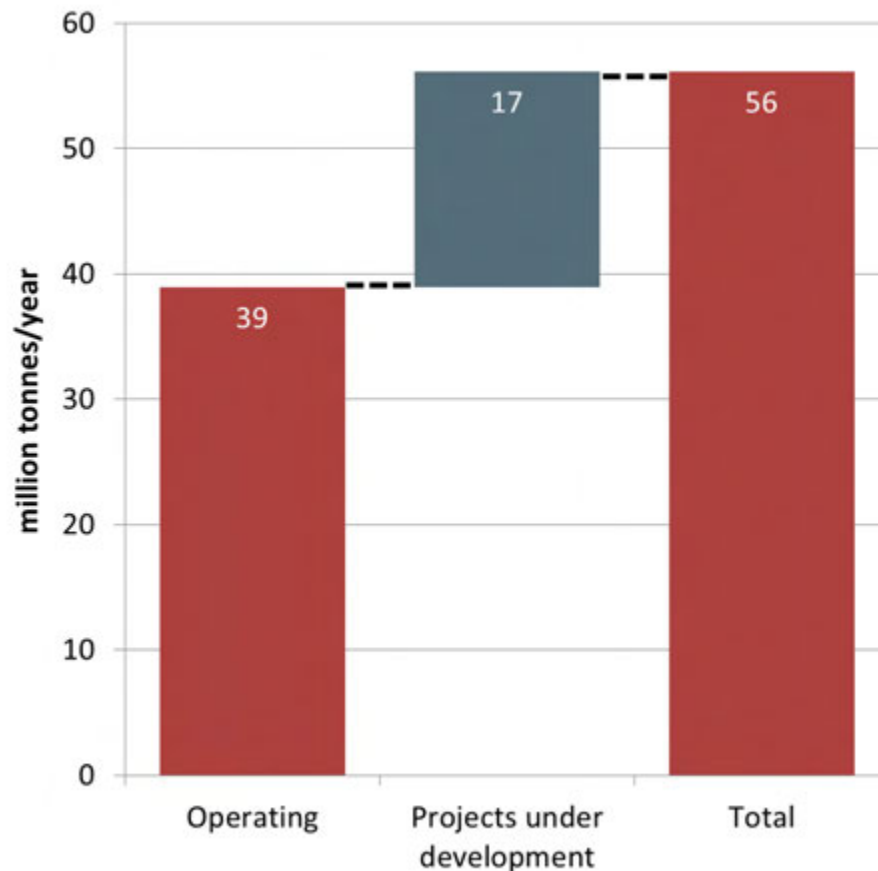
- Oil price crash and warm winters = underperformance in heating sector, pellets spilling over into industrial sector
- Several demand-side projects being pushed further back on the curve
- Rapid low-capex production capacity growth in new areas
- Expired contracts not finding new offtake



Recent developments and outlook

Global operational wood pellet capacity

= 39Mt/y at the end of Q1 2016 (~17Mt/y industrial)



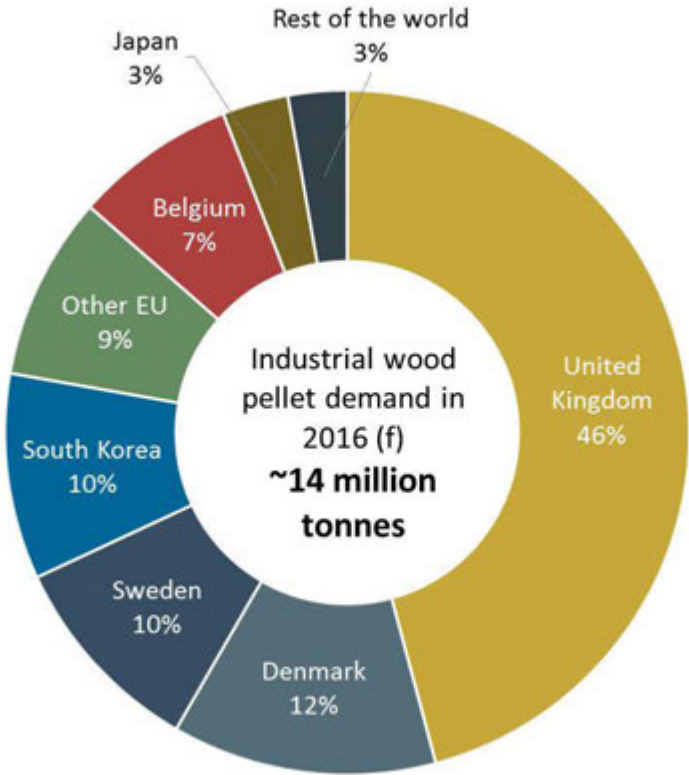
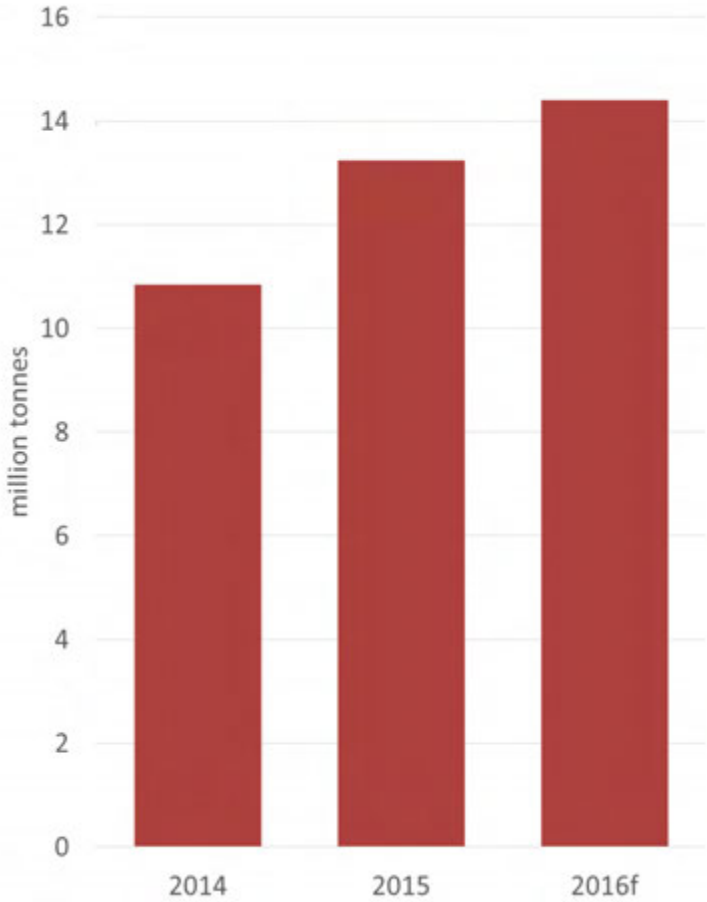
- Net capacity additions have slowed in the past 6-9 months
- Some recent capacity closures or reductions
- Investment environment challenging: fewer projects reaching financial close
- More capacity will need to be constructed to meet demand forecasts

Source: Hawkins Wright, the Outlook for Wood Pellets



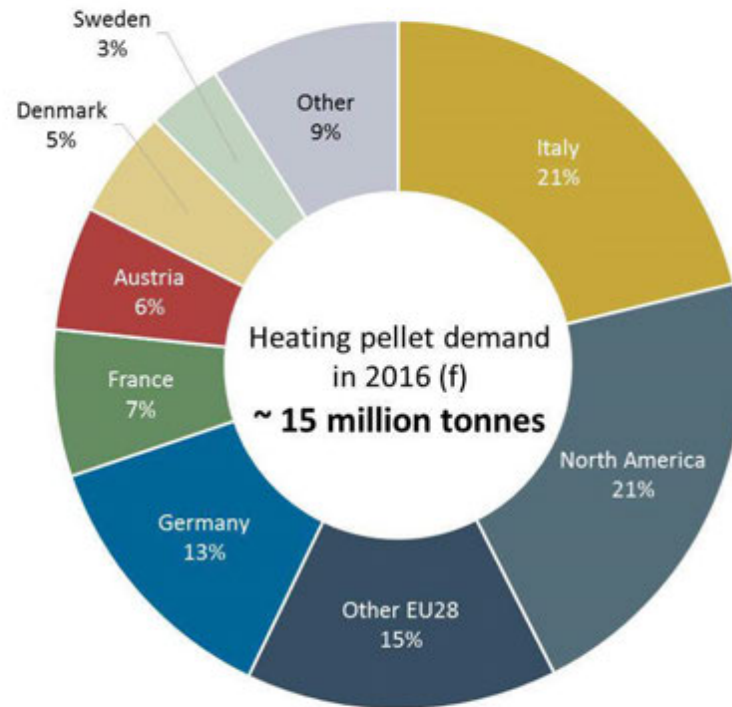
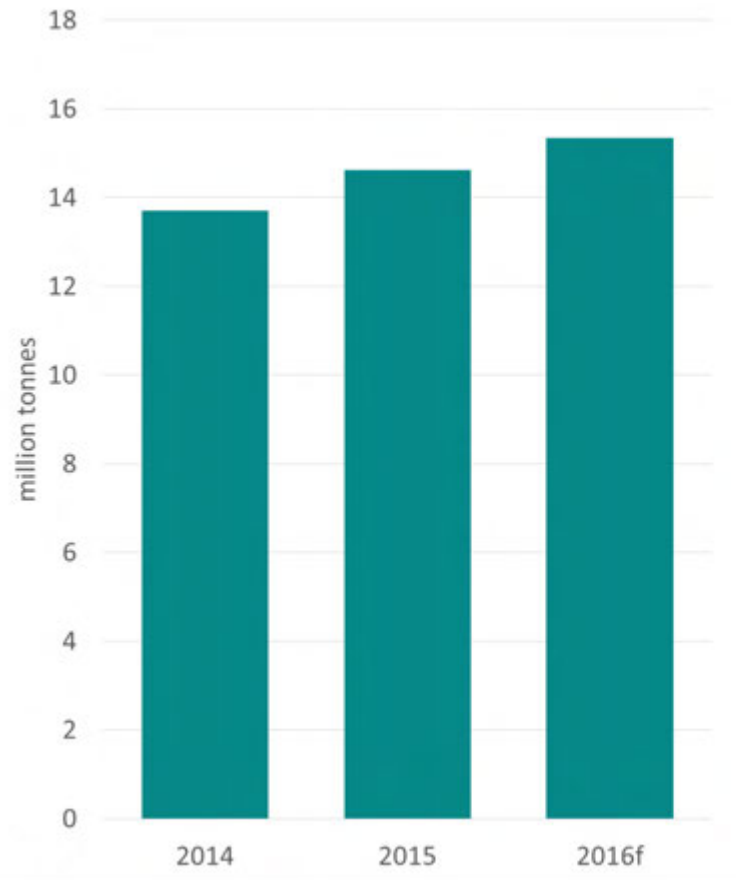
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Industrial wood pellet demand in 2016



Source: Hawkins Wright, the Outlook for Wood Pellets

Heating wood pellet demand in 2016



Source: Hawkins Wright, the Outlook for Wood Pellets

Europe: Recent developments



- Lynemouth moving closer to FID: now signed offtake agreement, logistics contract and appointed EPC contractor
- Langerlo sale to Graanul Invest – looks to be going ahead despite German Pellets bankruptcy
 - > Both expected to come online in late 2017 – adding 3Mt/y demand to industrial market at once.
- Applications under Netherlands' spring 2016 SDE+ auction more than double the €4bn budget – with 4 co-firing applications, and another auction in autumn.
- Drax unit 1 under investigation for state aid approval – but unit co-firing at 85% since Q3 2015 under RO.

Market will tighten significantly towards the end of 2017

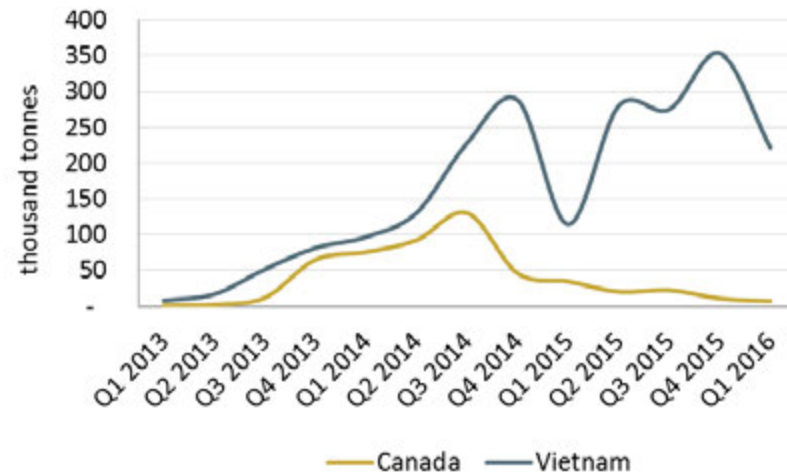
Asia: Where are the opportunities?



South Korea

- Tenders for more than 1.2Mt of biomass pellets released so far in 2016
- Tendency towards SRF pellets: cheaper, certification requirements not being enforced; no sustainability requirements
- Trade issue resolved in theory last year, but Canadian wood pellets cannot currently compete on price – differing quality and manufacturing costs

South Korean imports: Canada vs Vietnam



Source: Korea customs data



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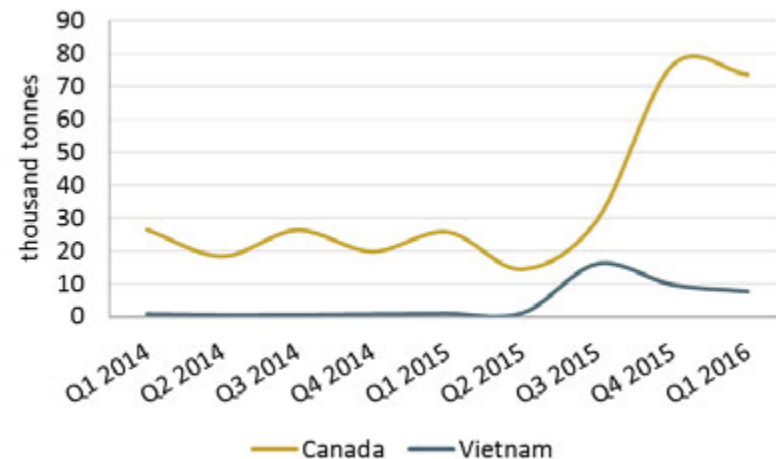
Asia: Where are the opportunities?



Japan

- Significant number of projects in the pipeline
- Long-term contracts sought – focus for developers
- Policy framework still uncertain but huge potential
- Three potential policy instruments could increase biomass deployment
- Imports ramped up in last 6 months, sustainable supply from Canada largest proportion of imports

Japanese imports: Canada vs Vietnam



Source: Japan customs data



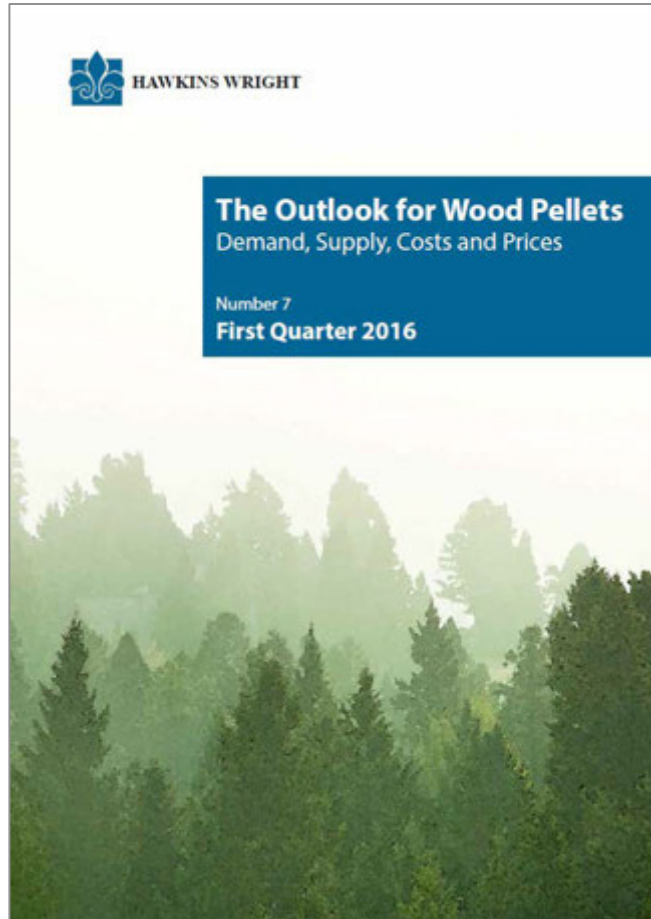
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Conclusions



- Consistent market growth despite backdrop of a weak commodity complex – impressive 22% growth in industrial market in 2015
- Challenging market environment will continue throughout 2016, but will tighten quickly towards end of 2017
- Market acutely oversupplied, but not structurally – more capacity will need to be built to meet demand forecasts
- Opportunities in new growth markets: Japan more than South Korea for Canadian suppliers, European demand will continue to grow
- Heating market will feel impacts of warm winters and low oil price for several years – outlook for growth heavily stunted over next few years (but still positive)

...Thank you for listening



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