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2015 PELLET MARKET OVERVIEW
AN EXTRACT OF THE AEBIOM STATISTICAL REPORT



EUROPEAN PRICE DEVELOPMENT OF INDUSTRIAL PELLETS

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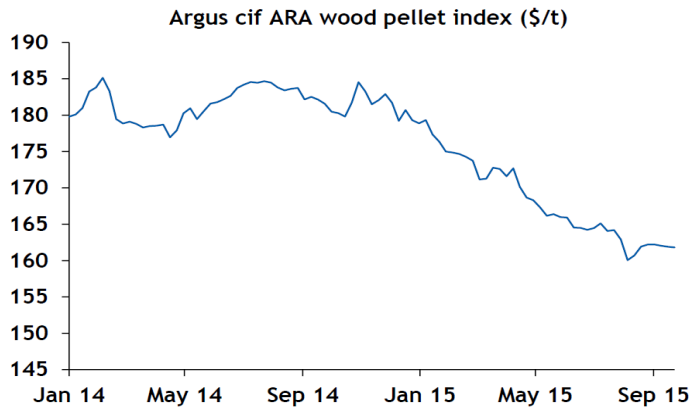


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8.2.5.2 EUROPEAN PRICE DEVELOPMENT OF INDUSTRIAL PELLETS

Figure 8.38 Development of Argus cif ARA wood pellet index 2015



Source: Argus

The Argus spot cif ARA wood pellet dollar-denominated price has fallen by roughly 9% since 1 January 2015. But even this has been relatively modest both in a historical context and relative to other parts of the energy complex, which have experienced far greater drops in 2015.

We have seen fluctuations in the last year because of power plants coming off line, owing to a fire or other incident, or coming on line, backed by renewable subsidies. Because the existing pool of converted units is small, every time that there is a shutdown at a sizeable plant or a plant loses a subsidy and is forced off line, this can have a material impact on the spot price. This is likely to be the case going forward until there is a wider pool of participants in the market.

But an even bigger driver over the past year has been currency moves. The price falls that we have seen this year are in part a consequence of continued euro weakness, dragging dollar prices down. There has been more of a focus on euro-denominated cargoes, particularly from Portugal and the Baltics, because of currency pressure as the dollar neared parity with the euro — which was a boom to European producers at a time of dampened demand. Currency moves this year have also led to a number of protracted negotiations on deals, with buyers and sellers reluctant to commit to a price for a transaction in case there was an imminent swing in the exchange rate.

Two mild winters and lower oil prices have meant that premium pellets originally intended for the home heating market have been diverted to the industrial market — exacerbating the oversupply. Industrial pellet prices have had to find a balance between scant utility demand, largely because of delays to planned biomass projects in the UK and the Netherlands, and US producers' price floor, below which they cannot economically support the market.

In recent years, South Korean wood pellet demand has served as a source of support to cif ARA prices, with locational swaps trade occurring with North American supply. This year, European buying interest has been relatively low and concentrated primarily in the UK, so eyes turned to the South Korean market as a potential demand source. But South Korean generators this year bought primarily from Vietnam, which offered supply at significantly cheaper levels, aided by sinking freight rates. So the South Korean market, which had occasionally supported spot cif ARA prices, failed to do so this year.



Jessica Dell
Editor
Argus Biomass Markets

Forward curve prices have been affected by subsidy cuts. The UK is the world's largest biomass market, but the recently elected government is rapidly dismantling support for the fuel. This is giving pause to owners of potential co-firing and conversion projects that do not see the subsidy support there once was. And in the Netherlands, co-firing projects are having to compete with other renewable projects in an oversubscribed budget, which will probably delay their start time. So, overall, there will be less demand next year than market participants expected — which has weighed on prices — leading producers to set their sights on increased demand in 2017 and 2018.