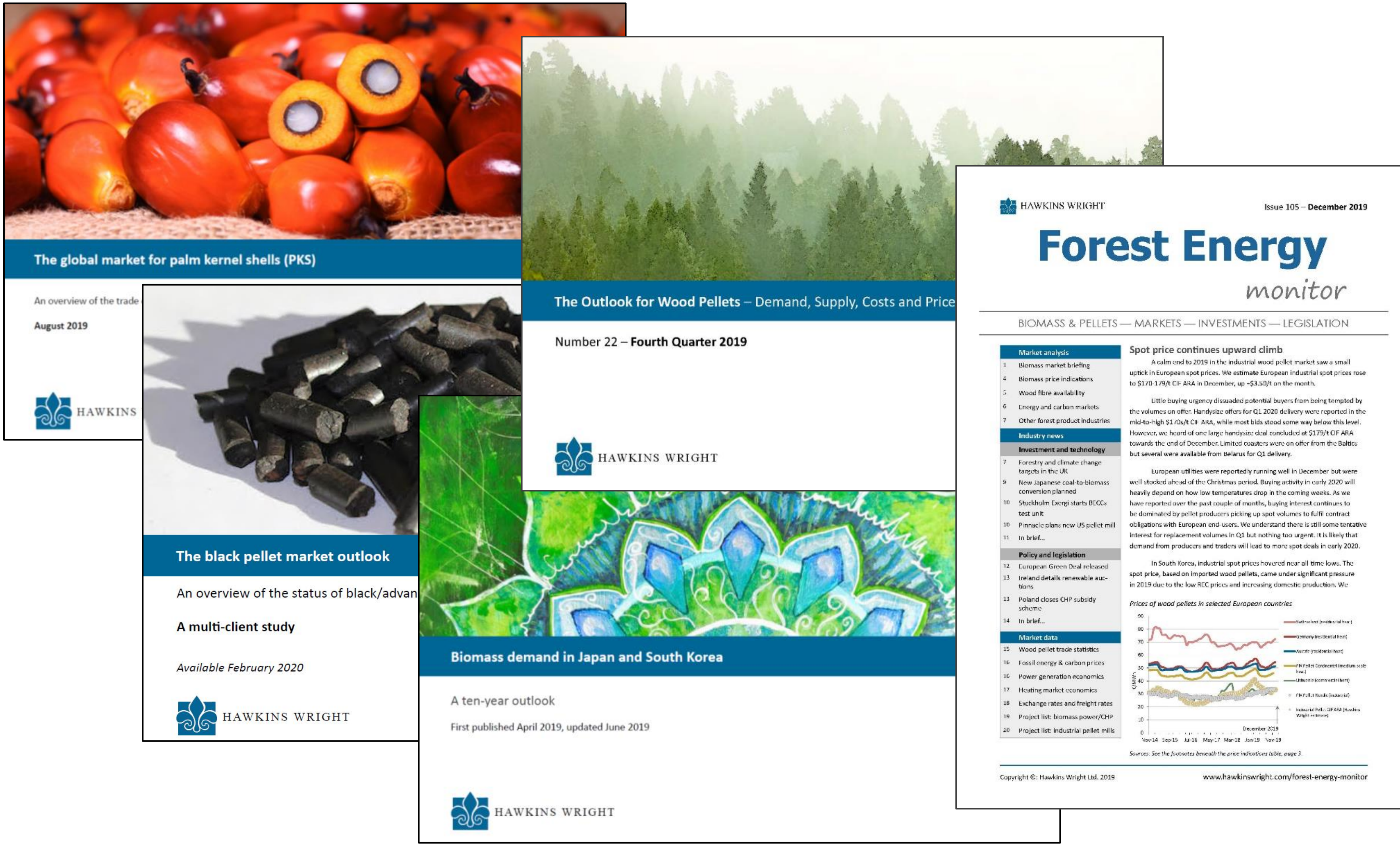
HAWKINS WRIGHT

European and UK Pellet Market Trends

Wood Heat 2020

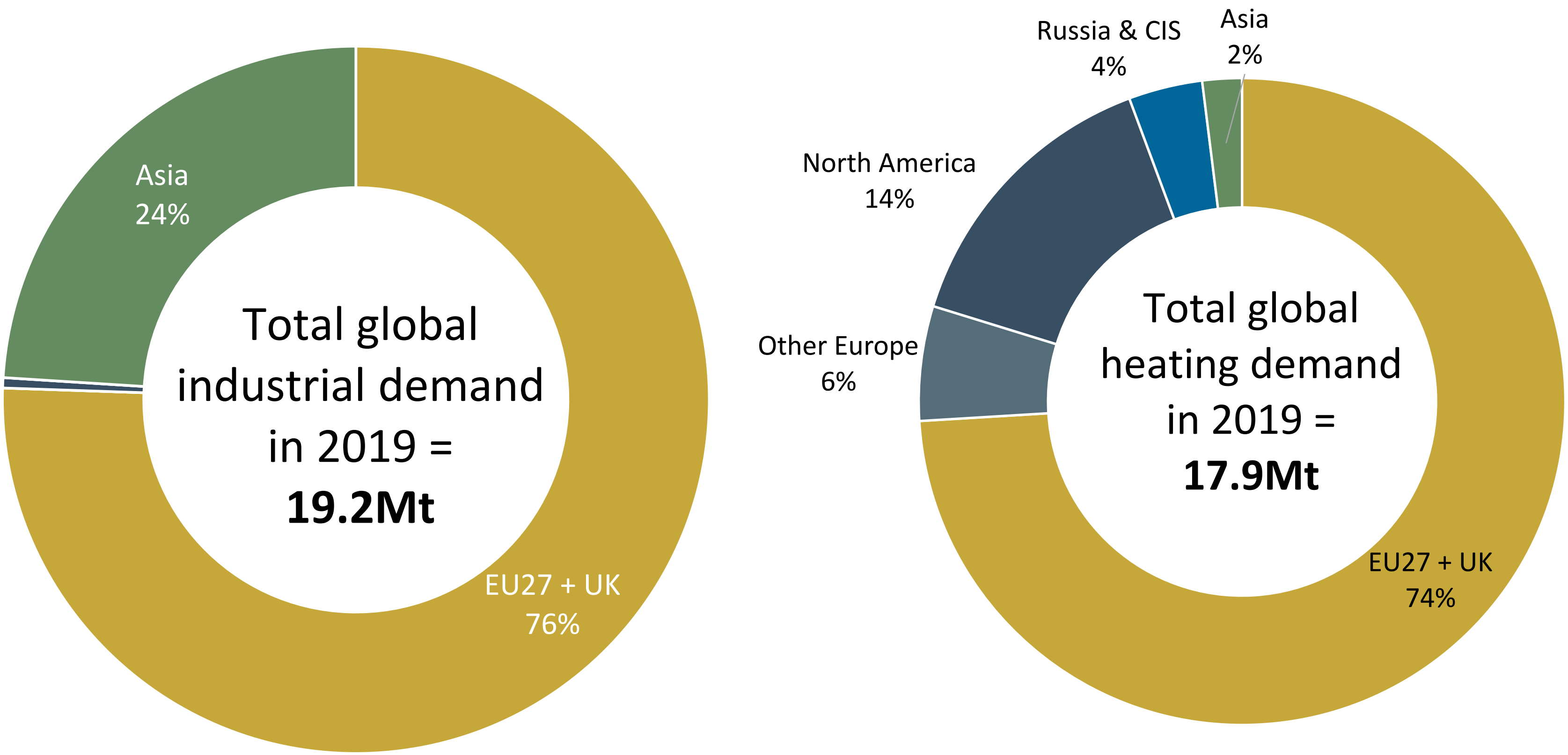
Fiona Matthews, Associate Director

Consultants to the global biomass industry



HAWKINS WRIGHT

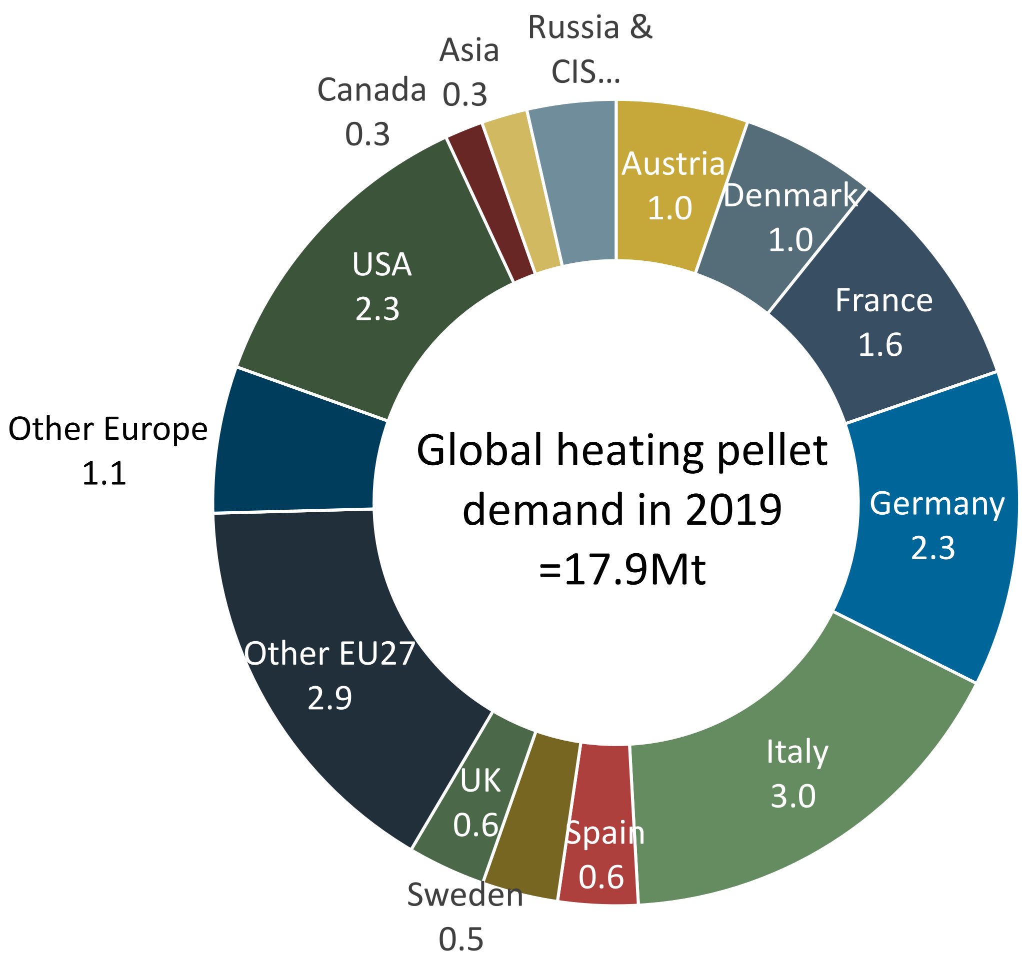
Total global demand in 2019 = 37Mt (annual growth of +6%)



Source: Hawkins Wright, The Outlook for Wood Pellets

Note: industrial = power, CHP and large district heating; heating = residential and commercial boilers

Breakdown of global heating pellet demand

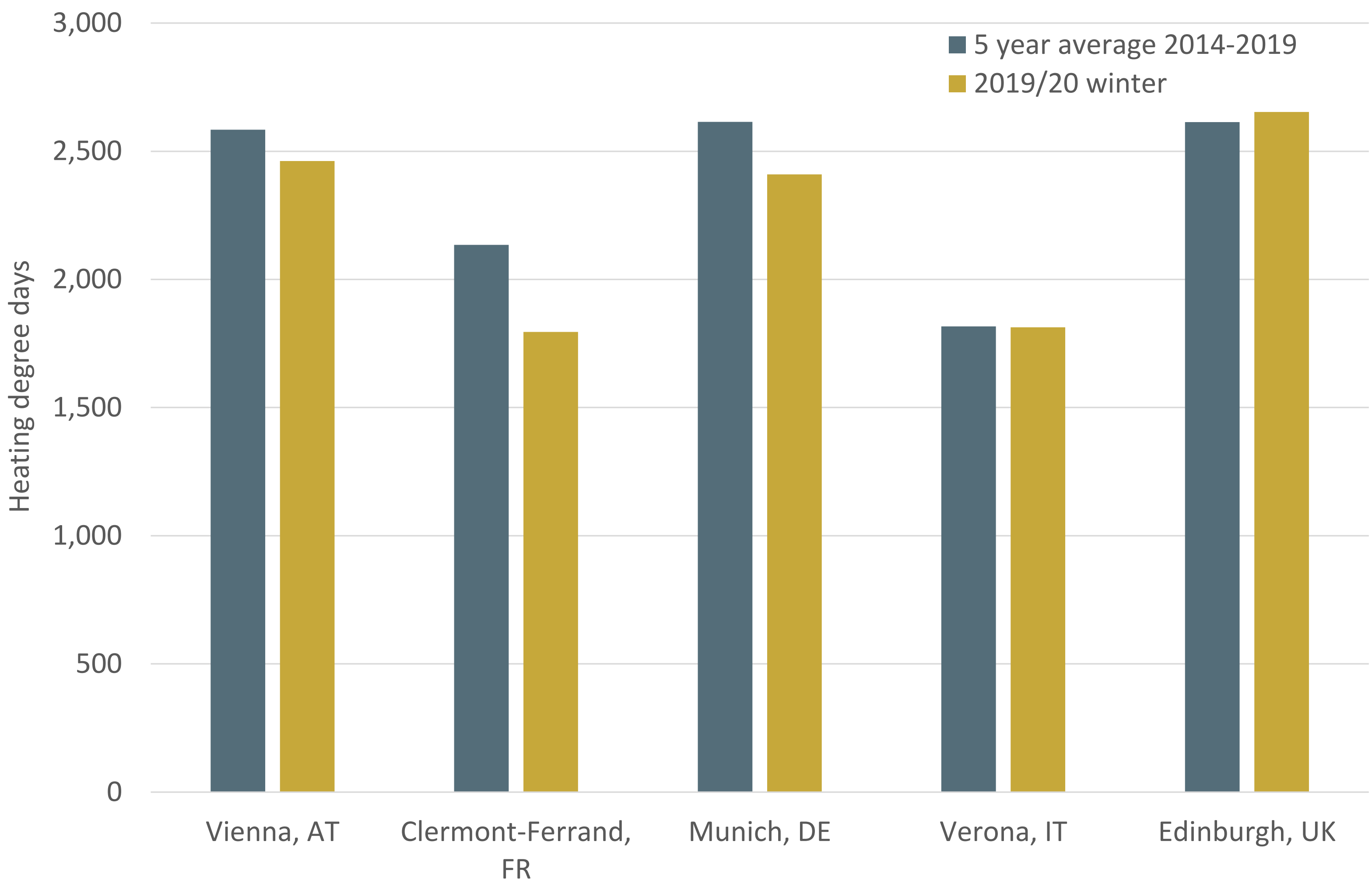


Source: Hawkins Wright, the Outlook for Wood Pellets

Note: does not include pellets used for CHP or large-scale district heating

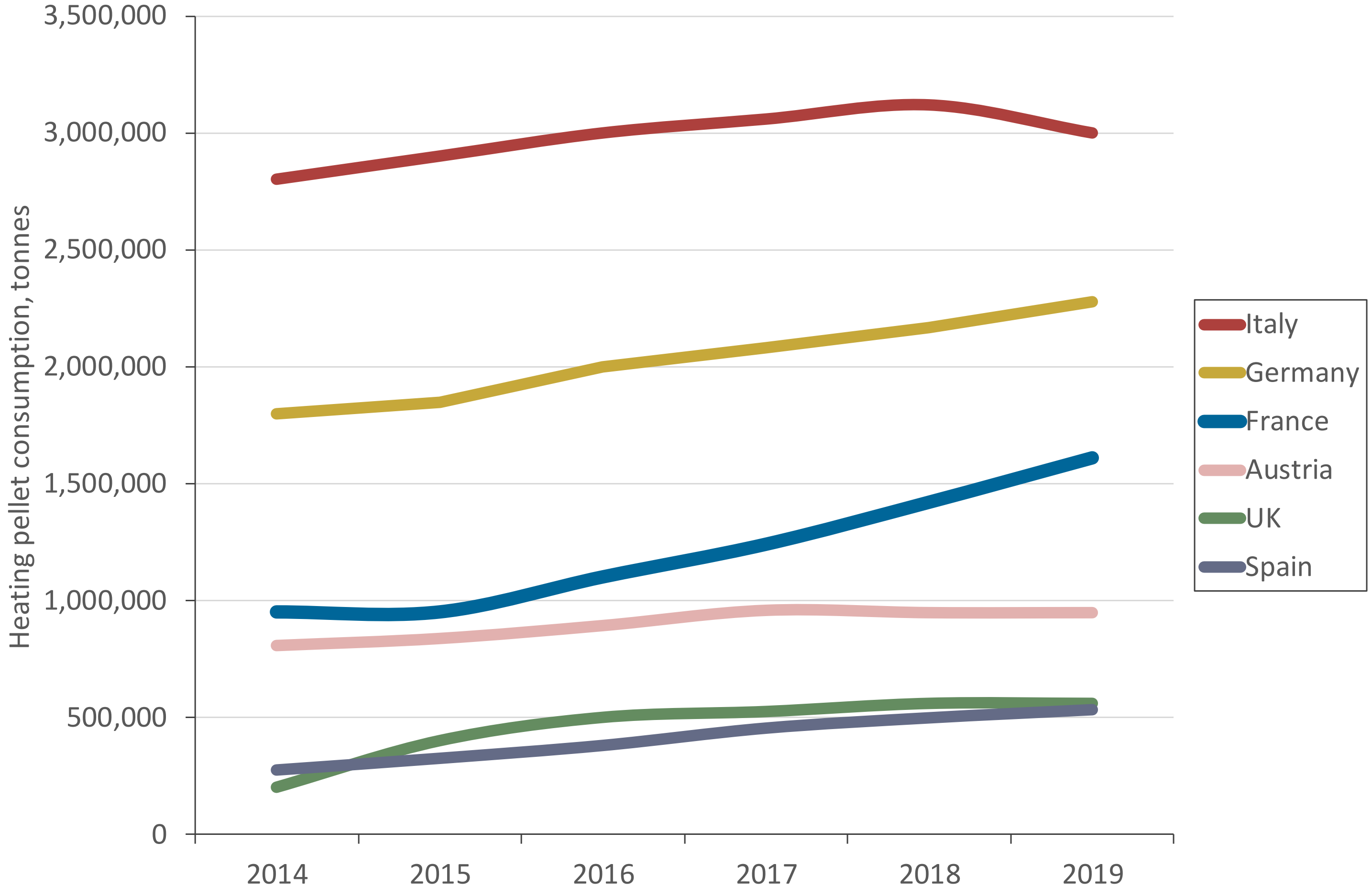
HAWKINS WRIGHT

The 2019/20 winter was milder than usual



HAWKINS WRIGHT

Demand for heating pellets continues to grow, despite mild temps



HAWKINS WRIGHT

Supportive policies are critical to market growth

EU decarbonisation targets and COVID recovery packages are bringing political attention back to heating

Generous boiler (and stove) subsidies, e.g. 45% of costs, with appropriate conditions - emissions, installation standards, boiler efficiency, building energy efficiency etc

- France, Austria, Germany

Restrictions on oil boilers, both existing and new installations

- Germany, Finland, Austria, France

Introduction of carbon taxes on heating oil

- Ireland, France, Sweden, Denmark

In contrast, UK pellet market has been plagued by policy uncertainty

- Biomass heat deployment has dried up since its peak in 2014, due to RHI degression and other changes

- Closure of RHI in March 2021/22 will halt project pipeline
  - Will lead to loss of expertise and damage to established supply chains

- Clean Heat Grant and IETF will not bring about the scale of decarbonisation required
  - Biomass heat is being confined to a very limited role

- Other policies are critically needed
  - Clean Heat Grant extended beyond 2021?
  - Outcome of Nov 2020 spending review
  - New bioenergy strategy
  - Soon (?) - Heat and Buildings Strategy

COVID-19 is impacting both pellet supply and demand

Pellet supply

- Lockdown/labour related production issues
- Impacts on wood fibre availability/costs (not necessarily negative!)
- Financing problems could delay supply chain investment

Pellet demand

- Less use in schools/libraries/public buildings
- Complications due to insolvencies e.g. hospitality
- More residential use due to staff WFH?
- Reduced disposable income means fewer stove sales in FR/IT (less growth in this market segment)

UK pellet supply

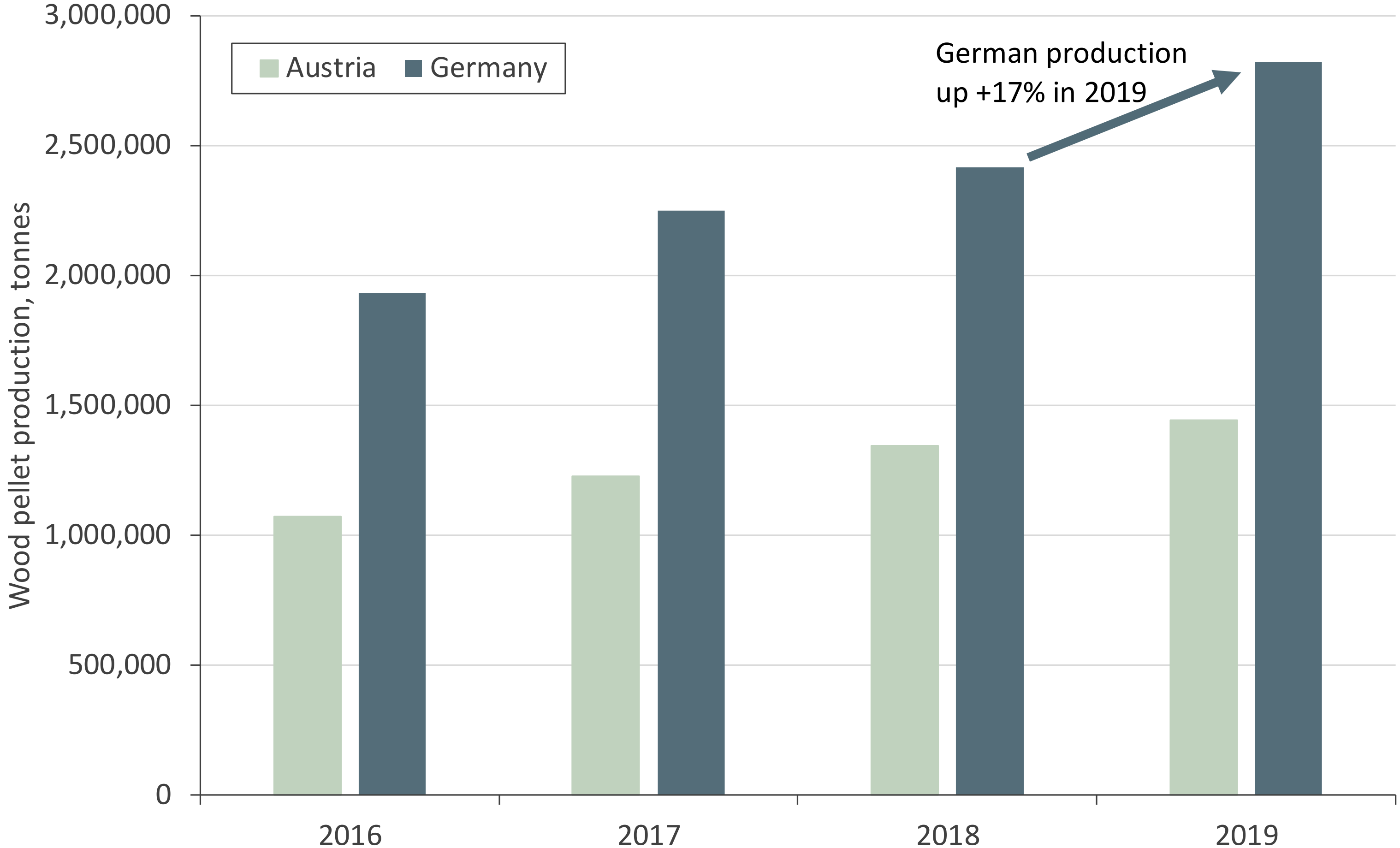
- Feedstock shortages in some parts of the UK, because of reduced sawmill operations, caused difficulties for UK pellet producers

- Loss of Verdo has affected UK production capacity, but others have/will expand (Balcas, Land Energy)

- ENplus production was 271kt in 2019, similar to 259kt in 2018

- Imports are important too (~300kt/y mainly from Baltics and Russia)
  - Risk of BREXIT related supply disruptions, particularly for bagged pellets in containers

European pellet production is rising to meet demand growth



Source: DEPV, ProPellets Austria

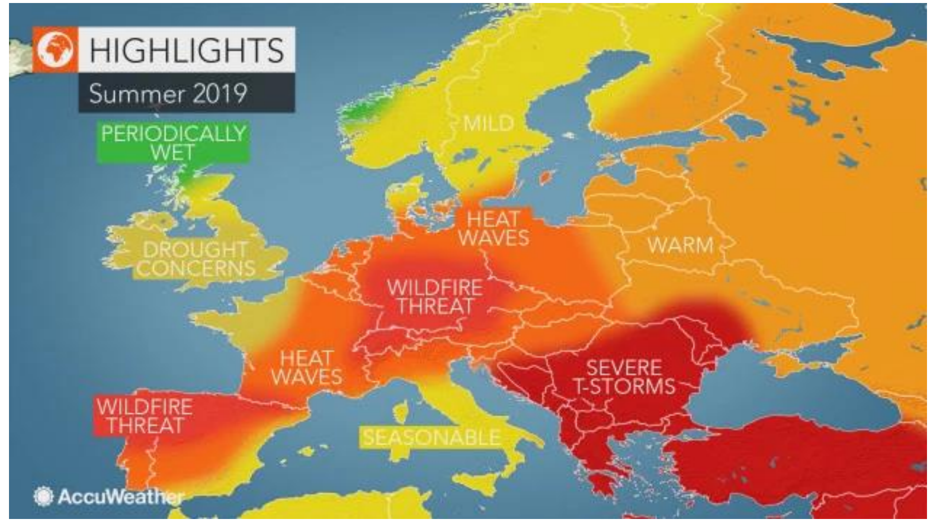
HAWKINS WRIGHT

Other trends in pellet supply - impact of bark beetle

- The spruce bark beetle infestation is spreading across Europe and getting worse.
- The warming climate is exacerbating the problem of bark beetle infestations.
- The influx of damaged wood is causing increased sawmill production rates.
- The wood often achieves lower log yield in sawmills which results in increased sawmill residue production (good for pellet producers)
- There is concern in many countries that forest owners are reluctant to replant infected areas which could lead to wood shortages in the future.

Other trends in the market - wildfires and storms

- Wildfires are a growing problem for forest management. For the first time, every European country experienced forest fires in 2019.
- A changing climate is increasing the frequency and size of storms.
- Some countries (Germany) have seen a significant rise in wind damage in forests.
- The influx of damaged timber has driven high levels of sawmill residues and lower prices. Some sawmills have been close to reducing production until chip stocks were drawn down.



Conclusions

- Despite several mild winters, European pellet demand for heating is growing
- Generous subsidies and oil phase out policies are driving the European market
    - The UK outlook is far less optimistic than its neighbours’
- Wood pellet supply in Europe was ample during 2019/20 winter, a reverse from 18/19
- Wood pellet production through 2020 has been helped by lower wood costs in Europe
    - although COVID concerns and low industrial pellet prices are deterring production in some cases
- COVID and BREXIT pose risks to the market (economic and regulatory)