WOOD MARKETS
HIGHLIGHTS
MONTHLY INTERNATIONAL REPORT
VOLUME 16, NUMBER 10 ■ DECEMBER 2011–JANUARY 2012
Featuring Lumber, Panels and Wood Products Analysis

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Global Wood Pellet Production Continues to Grow

Rising Raw Material Costs Take First Victims

In the last four or five years, the growth of the global wood pellet manufacturing industry has usually been described in very positive terms as a thriving example of the growing "green energy" business model. This seems appropriate given the rapid growth of global pellet production, capacity, imports, exports, current consumption, and especially projected pellet consumption. Propelled by large government subsidies, green biomass legislation, and specific green energy targets/goals established by most countries in Europe, the U.S. and Canada for the next 10–15 years, future production and consumption of wood biomass, and specifically wood pellets, does indeed look very bright!

However, a closer examination of the growth of global wood pellet production and consumption indicates that some very region-specific conflicting and damaging trends have developed despite the overall expansionary vision for the industry — developments that wouldn't normally be found in the early stages of a typical new wood product's life cycle.

The following analysis provides a close examination of problematic market developments in Europe (by far the largest wood pellet producer and consumer region in the world) and perspectives on the North American industry during the last two to three years.

GLOBAL WOOD PELLET PRODUCTION AND CONSUMPTION

During the last two years, global wood pellet production increased from about nine million tonnes to some 15–16 million tonnes, while apparent consumption expanded from about nine million to 13 million tonnes (figure 1). **In 2010, estimated global wood pellet production exceeded estimated consumption by about two to three million tonnes, while global pellet production capacity exceeded consumption by around seven to eight million tonnes (including new production facilities under construction but not operating).** Excess production capacity has meant that, on a global average, pellet mills have operated at only about 62%–65% of capacity. Of course, mill closures and production curtailments have not been experienced equally by all producing countries. Central Europe (Germany and Austria) has been especially hard hit during the last few years.

In 2009, it was estimated that actual European pellet production equaled about 60% of production capacity — of which Germany was the hardest hit, operating at only 54% of capacity. Incredibly, even with all this excess pellet production capacity and recent pellet mill closures and curtailments, new production plants in Europe still emerged at about one-half of the global expansion rate,

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GLOBAL PRICE TRENDS

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Global Wood Pellet Prod'n Continues to Grow

Rising Raw Material Costs Take First Victim *(cont'd)*

European pellet producers have had to deal with rapidly growing demand for a limited volume of high-quality sawmill sawdust, shavings and more expensive wood chips — the traditional and preferred raw material for pellet production.

The wood pellet oversupply problem, rising raw material costs, and flat pricing have not discouraged new investment in the industry; the feeding frenzy continues as firms compete to lock up any available residual sawmill fibre supply, despite the current lack of industry profitability in Europe and short-term market uncertainty.

New, improved technology, and perhaps a new production process (e.g., pellet torrefaction) in the near future will continue to put pressure on older, higher-cost plants. In the long run, it appears that countries with good access to a large supply of low-cost raw material will likely be in the most competitive global position. However, recent history shows that this is a moving target. Accordingly, new investments in the further expansion of today's pellet manufacturing capacity is not for the faint of heart. ■

(The full *WOOD MARKETS* article provides further details, including graphs and tables.)

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OSB/Plywood: Outlook 2012–13

Tough Business Fundamentals Until Single-Family Housing Rebounds

More than two dozen OSB mills have been closed or curtailed since 2006 due to plummeting demand, as OSB consumption remains heavily correlated to U.S. housing starts (especially single-family) demand.

The *WOOD MARKETS 2012* economic forecast continues to foresee a slow recovery in 2012 and into 2013 as a result of some slow changes in foreclosure rates, housing prices, unemployment rates, and new-/existing-home inventory levels.

Lacklustre U.S. demand trends are expected to delay any price, supply and demand improvements. About 13 billion sf of closed or curtailed capacity could restart; the sequence and timing of this, and the battle for market share, will likely continue to postpone any price increases. As such, OSB (and to a lesser degree, plywood) prices will be impacted more by companies' schedules of capacity start-ups than by overall demand in the next few years. ■

(The full *WOOD MARKETS* article provides further details, including graphs and tables.)

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Publisher & Editor Russell E. Taylor
Associate Editors Peter Butzelaar, Gerry Van Leeuwen, Alice Palmer
Managing Editor/Layout Jane Keyes
Research Chari Gimenez
Subscriptions Barb MacDonald

WOOD MARKETS MONTHLY INTERNATIONAL REPORT

Mailing Address
Suite 603–55 E. Cordova Street
Vancouver, B.C., Canada V6A 0A5
Phone: 604-801-5996 (country code 1)
Fax: 604-801-5997
e-mail: info@woodmarkets.com
website: www.woodmarkets.com

Subscription Rates (1 year, 10 issues):
E-mail (pdf): U.S./International/Canada: **Cdn$565** (+GST/HST in Canada)

Back issues (subscribers only): Cdn$100

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