



HAWKINS WRIGHT



European market update

UK Wood Heat Conference

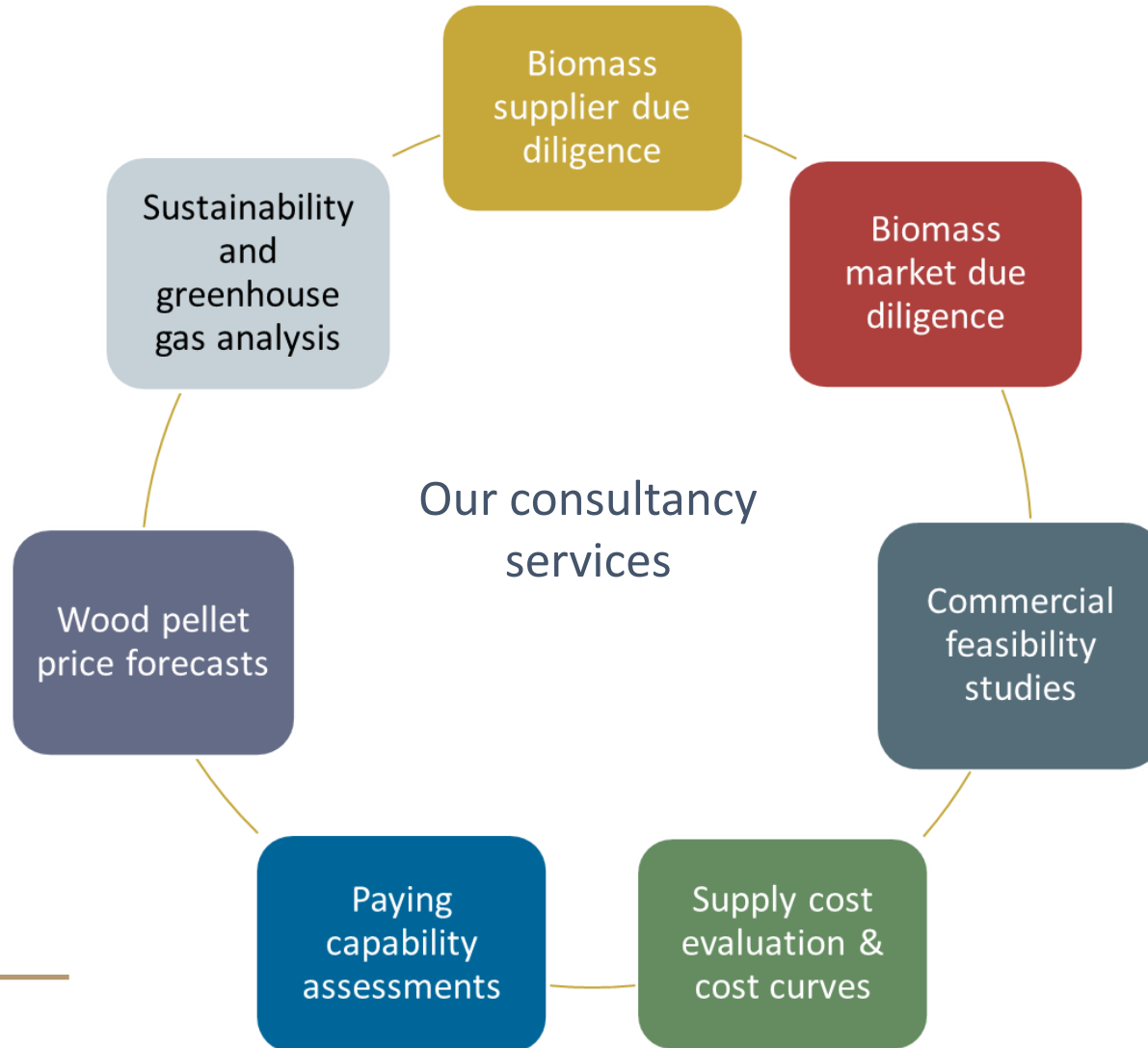
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October 2023

www.hawkinswright.com



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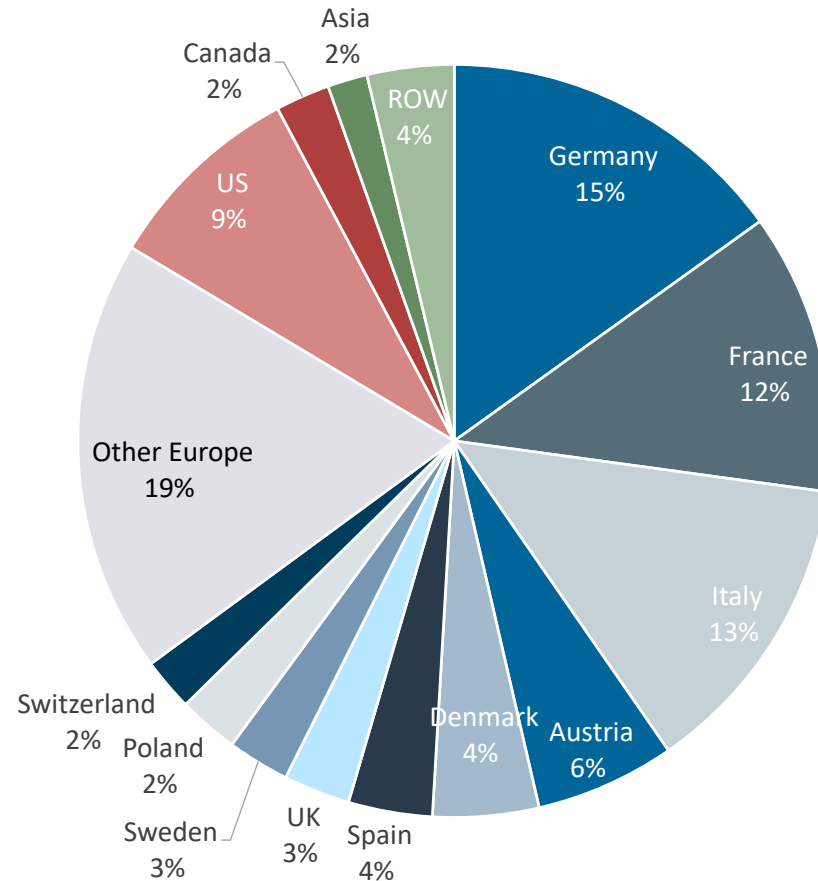


- Experienced forest products consultancy
- Extensive network of market contacts
- We carry out a range of market intelligence-led projects



Introduction to the global heating pellet markets

Global heating pellet demand in 2022, by region



Source: Hawkins Wright, Outlook for Wood Pellets

- The global heating market is close to the size of the industrial market
- Europe represents the largest share of the market
- Germany, Italy and France are the largest individual markets
- We include residential and commercial heating in our heating figures



Policies driving heating market growth

Key policies supporting new boiler and stove installations



Germany – BEG provides grants, but reforms in 2023 had a huge impact



Austria – Bans of oil, gas and coal boilers. Federal grants.



France – MaPrimeRenov and Heating Boost provide grants



US - State-specific policies such as tax breaks, grants and loans



The UK was one of the only countries to provide ongoing support under the RHI. This has now been replaced with a grant subsidy (BUS).

- Although using pellets is often cheaper than fossil fuels, consumers often need government grants/incentives to install new boilers/stoves.
- Bans on fossil fuels systems are also effective incentives
- Changes to support can have a significant impact – e.g. Germany's BEG reforms

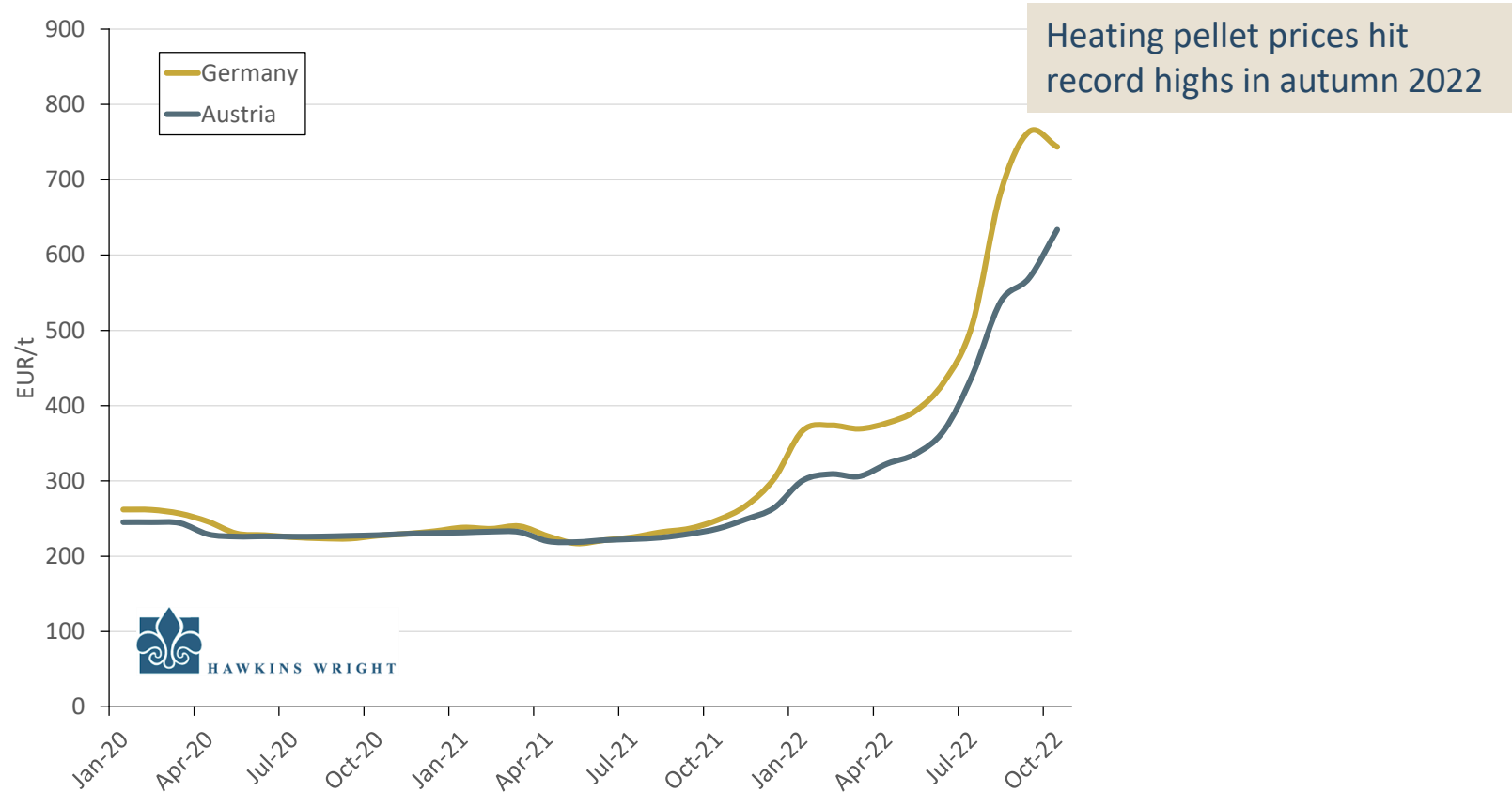


A look back at last year



A look back at last year

German and Austrian retail heating pellet prices



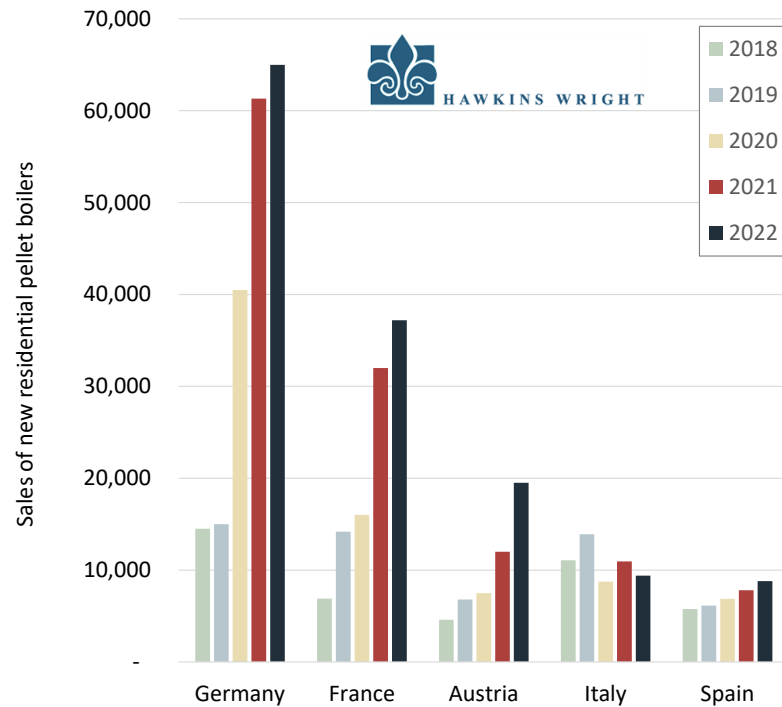
Source: DEPI, ProPellets

- Heating pellet prices skyrocketed ahead of the winter season
- Fears over the loss of Russian supply supported the price moves
- Industrial prices reached \$450/t, largely due to high power prices

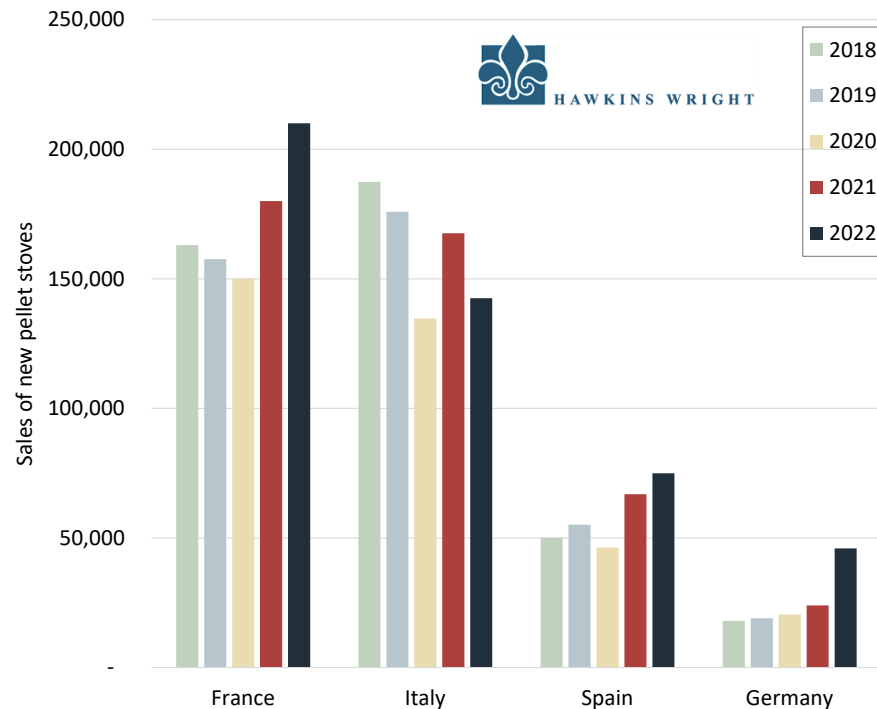


2021 and 2022 appliance sales were record-breaking

European biomass boiler sales



European pellet stove sales



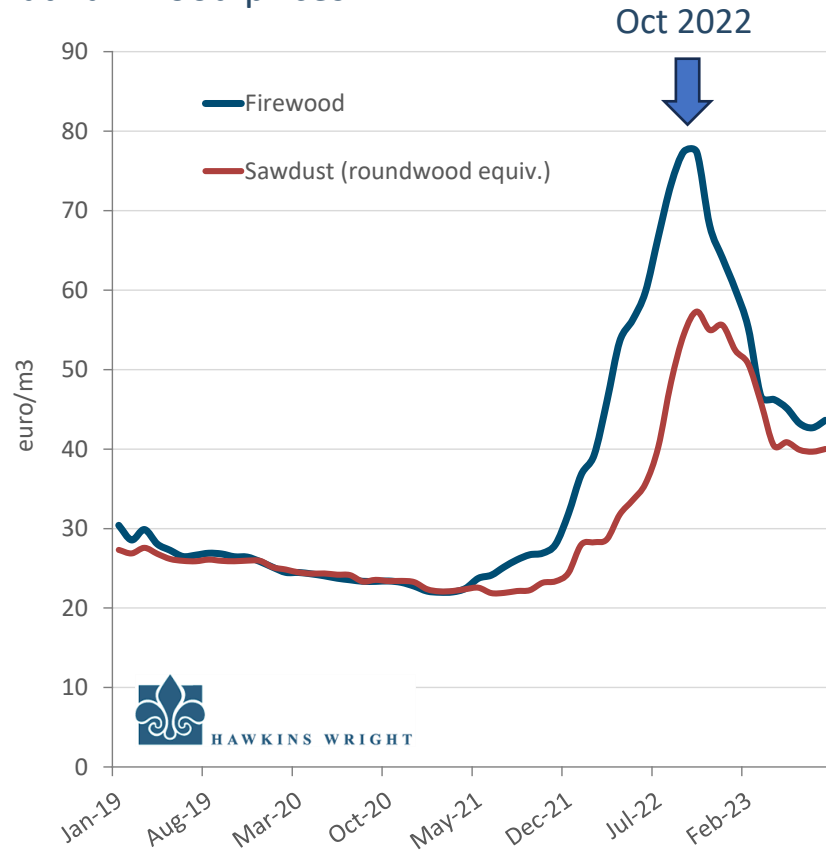
- Biomass boiler and stove sales had been strong in 2021 and 2022, indicating demand would increase substantially in winter 2022/23

Source: Bioenergy Europe



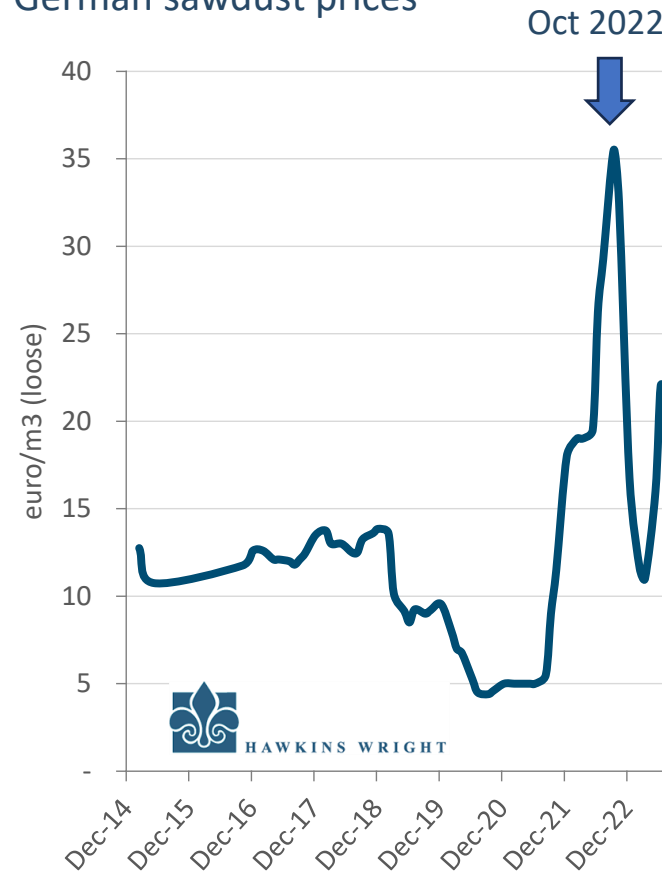
High wood & energy prices supported high pellet prices

Latvian wood prices



Source: MeKA

German sawdust prices



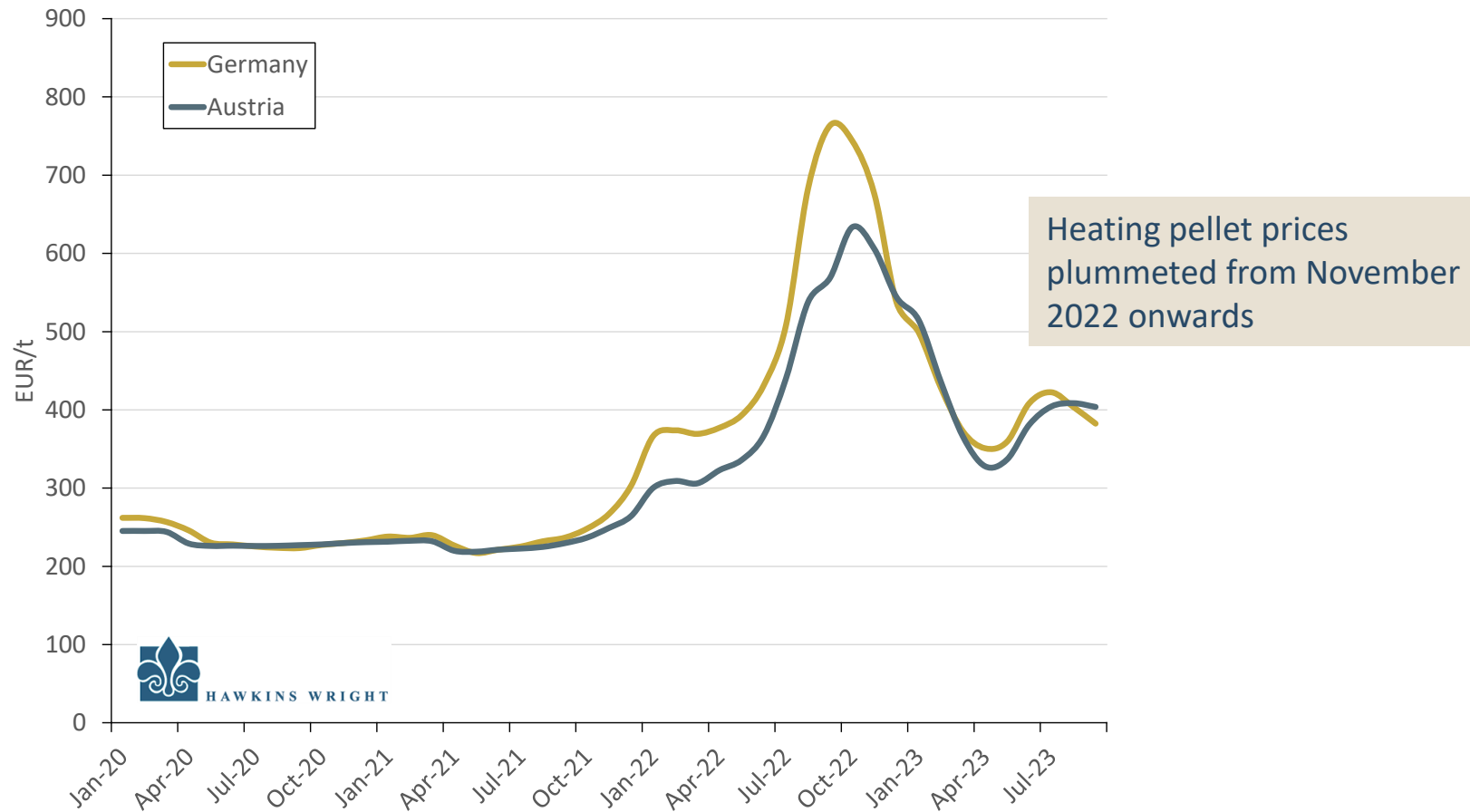
Source: EUWID

- The Baltic states were particularly vulnerable to EU sanctions imposed on Russia
- The fallout was felt in other markets as wood prices rose universally



So what happened?

German and Austrian retail heating pellet prices



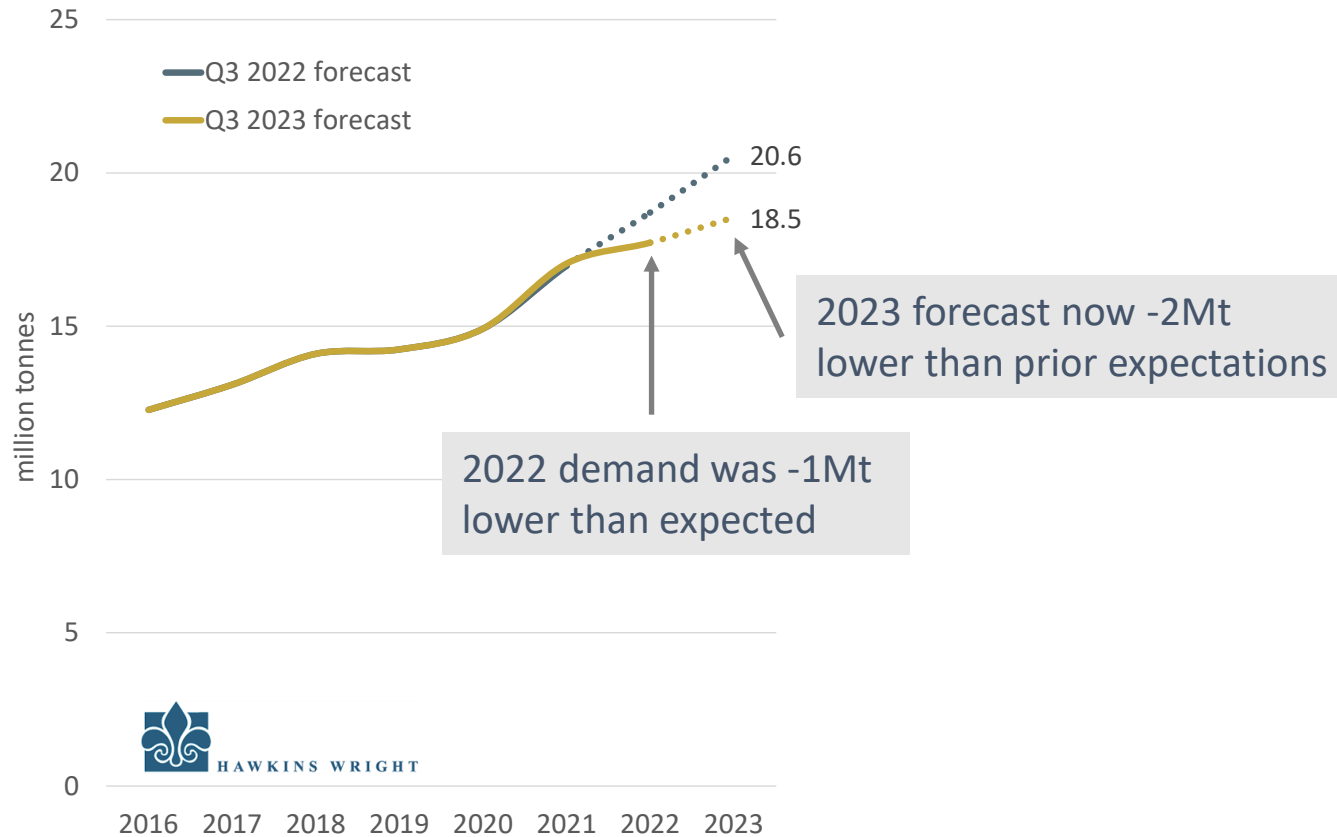
Source: DEPI, ProPellets

- Demand did not materialize as expected
- Prices softened during the heating season, bucking the usual seasonal trend



European heating demand has not matched expectations

European heating demand forecasts, now and previous

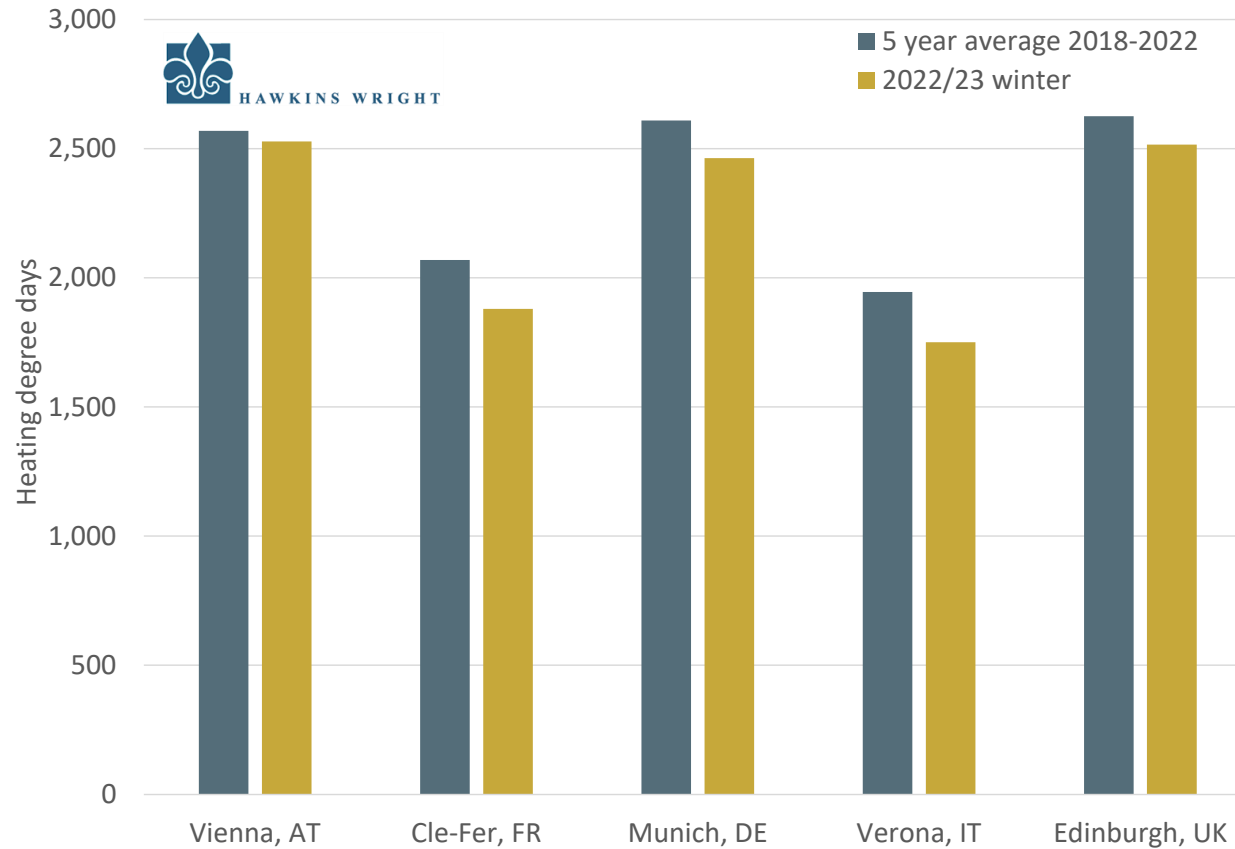


Source: Hawkins Wright, Outlook for Pellets, Q3 2023



Mild weather dampened demand

European heating degree days, 5-year average vs 2022/23 winter season



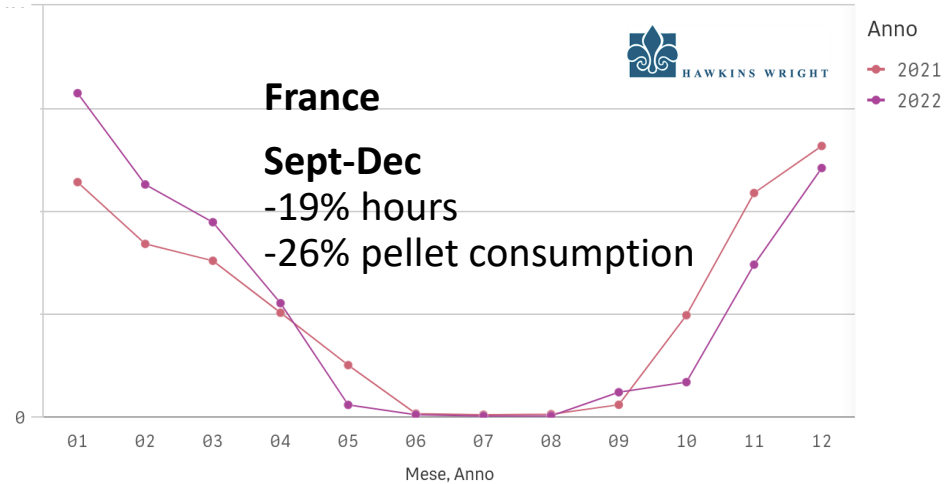
Source: MDA EarthStat

- Italy HDDs down –10% versus 5-year average
- German HDDs down – 6% versus 5-year average
- UK HDDs down –4% versus 5-year average

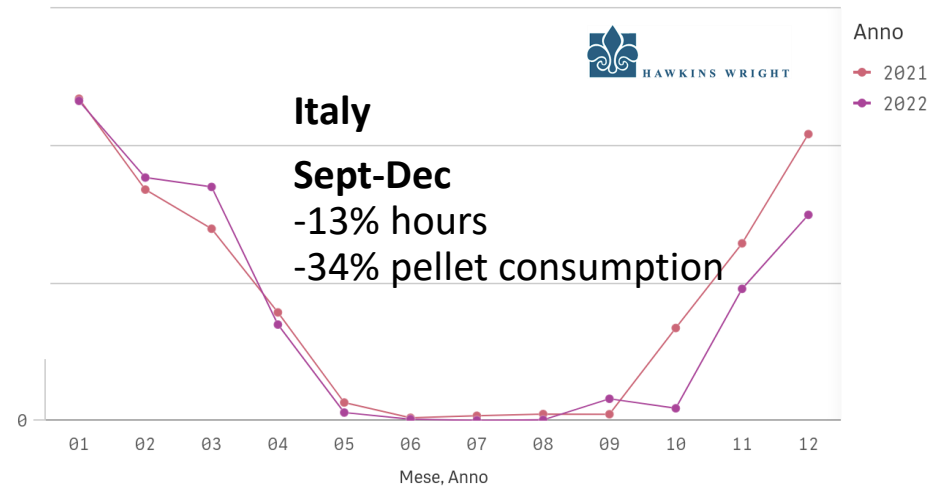


European consumers altered their behaviour

Palazzetti pellet stove use 2021 vs 2022



Source: PALAZZETTI IoT Data Platform



- Energy efficiency measures reduced consumption across all heating fuels
- High pellet prices dissuaded pellet use in existing appliances
- Stove users were better able to reduce pellet consumption



Heating market outlook



Boiler and stove sales plummeted since 2H2022

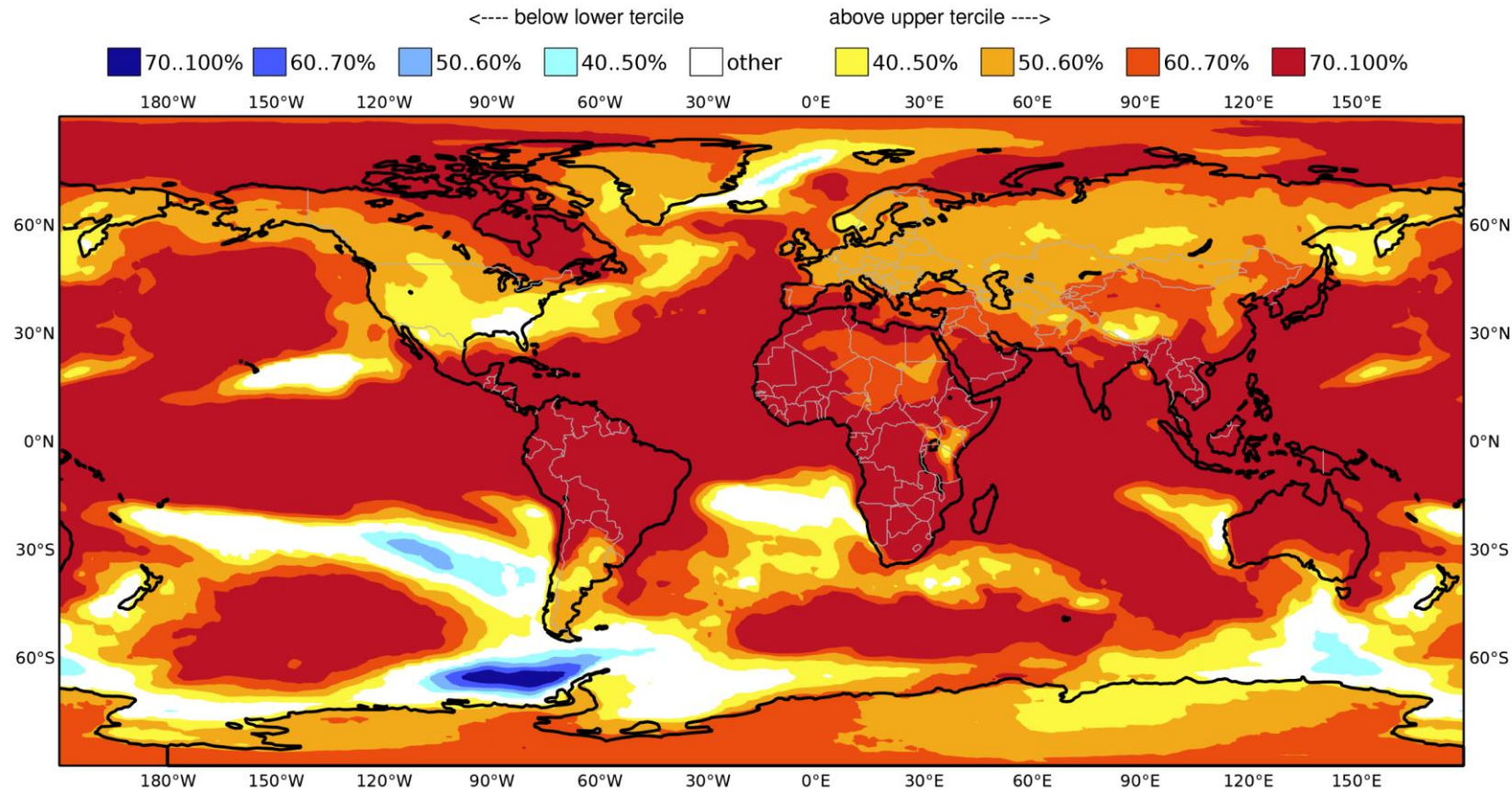


- New sales of pellet heating appliances plummeted, depressing future market growth
- Consumer confidence dented by high pellet prices and shortages
- Change of policy in Germany also impacted sales
- Sentiment is said to be improving

Sources: AIEL, ProPellets, German government statistics

European weather outlook

Copernicus forecast, probability of temperature departing from long-term mean



Source: Copernicus

2m temperature anomaly refers to the departure of the current day's forecast temperature from a long-term mean.

- El Niño years often lead to differences between early winter and late winter
- Copernicus expects a warmer and wetter Q4 in Europe, particularly in the south
- But then colder weather could arrive, particularly in northern Europe
- Winter as a whole is predicted to be likely warmer than average



Outlook for European supply

We can identify 1.3Mt/y of new capacity under construction in Europe

Production rates were strong in the first half of 2023, slowdown in later summer

Spring buying spree means end-user stocks are relatively high

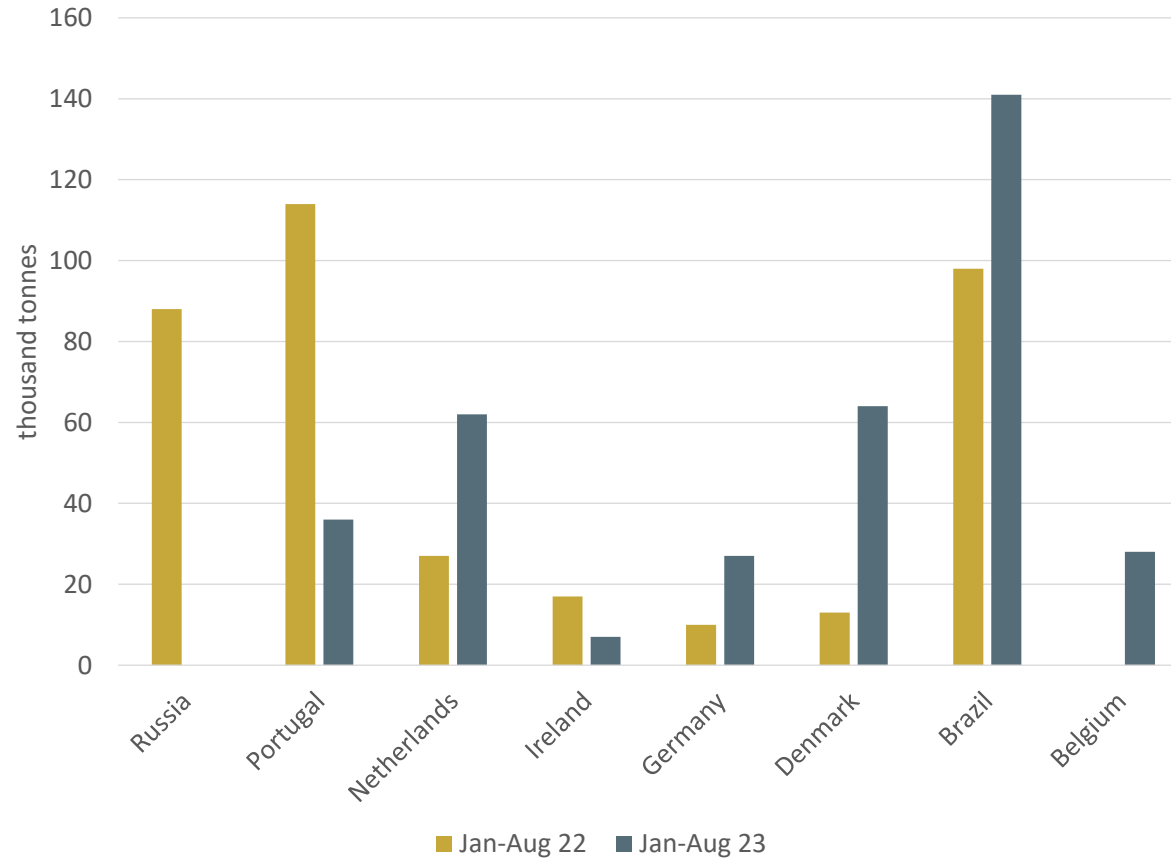
Raw material prices have eased from record highs last year

- European pellet production has been strong this year
- A lot of new capacity is starting up, primarily in countries with growing demand e.g. France, Germany



UK heating pellet import trends

2023 imports v 2022 (exc big industrial suppliers)

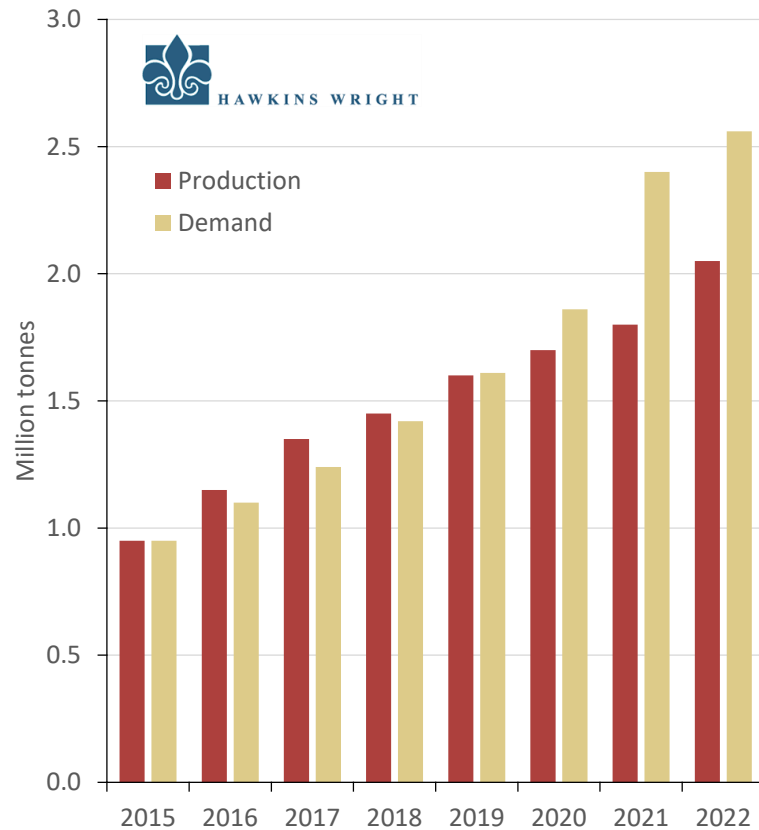


- NB: Industrial supply countries not shown (USA, Canada, Baltics)
- -176kt lower imports from Russia, Ireland and Portugal
- +174kt higher imports from Belgium, Brazil, Netherlands, Germany and Denmark

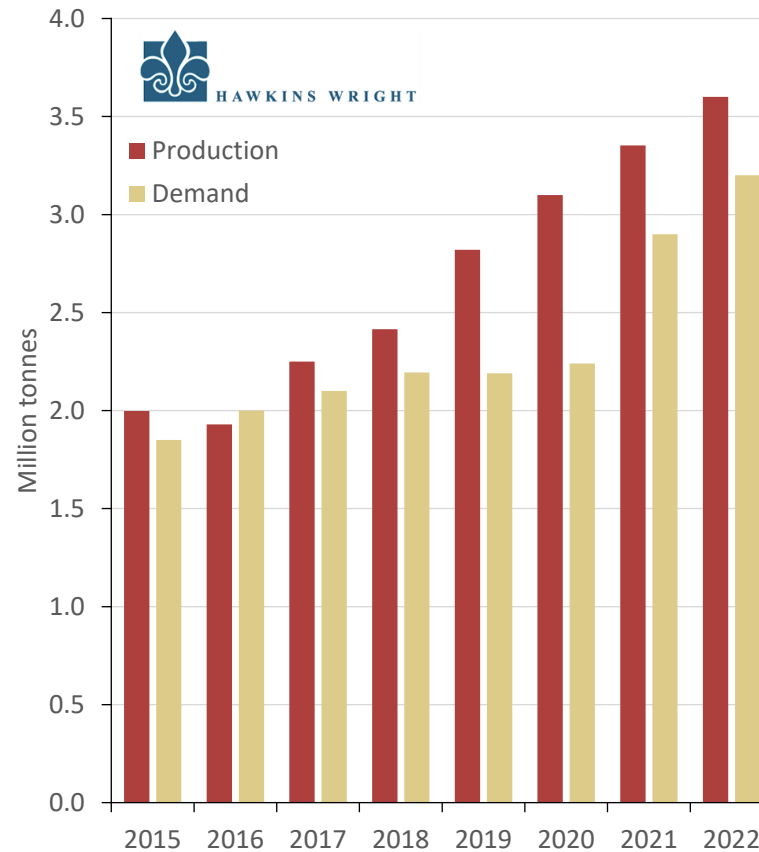


Will Europe need North American heating pellets?

French production vs heating demand



German production vs heating demand



Source: Hawkins Wright research

- Although European production is growing to meet increased demand, there is a disconnect.
- If boiler/stove sales were to return to pre-2023 levels, European production may struggle to keep up



Thank you for your attention!

If you have any questions, please contact me:

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