

Improving Fibre Security and Affordability for British Columbia's Wood Pellet Industry



Wood Pellet Association of Canada Position Paper
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In 1995, the Province of British Columbia introduced the *Wood Residue Burner and Incinerator Regulation* (“WRBI Regulation”) requiring sawmills to shut down waste-wood beehive burners operating in conjunction with sawmills as an initiative to reduce air pollution. At that time – although pulp mills did use some hog fuel in their power boilers – there wasn’t a market for the vast majority of wood waste. As many sawmill operators had no other means of disposing of wood waste, immediate compliance with the new WRBI Regulation would have led to widespread sawmill closures and loss of employment. To mitigate these impacts, the Province granted over a fifteen-year period, a number of extensions to the deadline for compliance to the WRBI Regulation.

In the late 1990’s, entrepreneurs began using sawmill wood-waste as a raw material for a new product – wood pellets. As a small domestic market quickly became saturated and pellet production grew, BC producers began selling into the European power market. From 1998 to 2011, BC’s wood pellet industry grew to 13 plants and the province temporarily became the largest wood pellet exporting region in the world. As demand for wood waste grew, the pellet industry played a major role in enabling sawmills to finally close their beehive burners and to comply with the WRBI Regulation.

The Province recognized the emerging importance of the wood pellet industry in its 2008 *BC Bioenergy Strategy*, which stated, “*The Province will promote wood pellet production and facilitate market development opportunities within the Province and around the world.*”

In 2012, the Southeast US pellet industry surpassed BC as the number one exporting region. While the Southeast US industry is growing rapidly, BC’s pellet industry growth has stalled, due in large part to the lack of access to a long term cost effective and predictable fibre supply. Access to secure affordable fibre supply has now become the biggest threat to the continued viability and growth of BC’s pellet industry.

Fibre Supply Issues Faced by BC Pellet Producers

The pellet sector is faced with an insecure and increasingly unaffordable fibre supply. We recognize that the Province, in its October 2012 *Mid-Term Timber Supply Action Plan*, has committed to improving small-scale salvage and to implementing supplementary forest licences. But these measures appear to fall short of what producers need if the need if the pellet sector is to continue to be viable and to grow to its potential.

The following is a list of some key fibre-related issues facing the pellet sector:

1. Despite having invested more than \$500 million, BC's pellet producers do not have the same degree of access to fibre that the province's sawmills and pulp mills enjoy. The Province has recognized that even the forest harvesting sector requires a substantial degree of security and has mandated by law – via the *Timber Harvesting Contract and Subcontract Regulation* – that major tenure holders must provide long-term contracts so as to enable logging contractors to justify large investments in harvesting machinery.
2. The wood pellet sector's primary customers are large power utilities. Presently, several of these utilities – particularly in the UK – are holding back on investment decisions that would greatly expand our markets, due to regulatory and fibre supply uncertainty. There is now one large UK power producer that is asking BC pellet producers to demonstrate fibre security before it will commit to a biomass conversion that would consume up to four million tonnes per year of wood pellets.
3. Although the Province is responsible for governing the management and disposition of Crown timber, it has taken a hands-off approach to the pellet industry, instead advising pellet operators to obtain their fibre directly from the lumber industry on a “*business to business*” basis, rationalizing that advice as a “*free market*” approach. The reality is that it is not a free market when just a few large tenure holders have monopolized regional control over the majority of the province's public forests – including the low value portion that they would still be burning if not for the pellet industry. These large tenure holders simply dictate price and terms on a take-it-or-leave-it basis, feeding fibre to pellet producers on a hand-to-mouth basis, using their monopoly power to keep the majority of economic value for themselves. Pellet producers are left frustrated with fibre insecurity and ever increasing costs. And despite the fact that BC's lumber manufacturers are vocal about the need for fibre security for themselves, they are unwilling to recognize that pellet producers need that same security.
4. The Province gives lumber producers the right to the entire forest profile, including the low grade portion that they historically wasted and, even now, is only of interest to pellet

producers. This includes tops, branches, and low grade logs. There are no policy consequences to a primary tenure holder who chooses to burn post-harvest logging residuals where a pellet operator could use that material. Frequently, if a pellet producer is unable to meet a primary tenure holder's price demands, the primary tenure holder simply burns the harvest residue, wasting a resource that could be creating jobs and economic value. The Province has suggested remedying this by the use of the new *fibre licences to cut*. Our difficulties with these new licences are: (1) they are too small and short term to provide meaningful fibre security, and (2) it puts the onus on the pellet producer to prove that a major tenure holder is uncooperative and sets the stage for an adversarial relationship. In a business environment where major tenure holders hold monopoly regional control, this would be too great a risk for pellet producers to take.

5. The Province began promoting the concept of a *receiving licence* in 2009 as a means of providing fibre security for pellet producers. But after primary tenure holders lobbied aggressively in opposition, the Province abandoned this initiative. Similarly, following the Bio-economy Committee's report of 2012, the Province committed to creating a *supplementary forest licence* for the same purpose. A year and a half later, the debate continues with the potential that it could follow the same fate as the receiving licence.
6. The Province and the primary forest industry (pulp and sawmill sectors) have jointly created a *Bio-economy Transition Committee* to plan for the future of the forest bio-economy. The pellet industry – presently the only viable sector of the bio-economy – is restricted to participating on a subcommittee but is excluded from the main committee. We have been led to believe that the main committee is made up of representatives of the traditional forest sectors (pulp and sawmilling) and government. Since the proceedings of the Bio-economy Transition Committee have not been made public, concerns us that decisions being taken do not reflect the needs of the pellet sector.

Recommendations

As BC's forests are 95% publicly owned, BC's wood pellet producers are urgently asking the Province to actively participate in helping to solve the pellet sector's difficulty in obtaining a secure supply of affordable fibre so that our sector may continue to be viable and grow to its potential.

Since the pellet sector is not competing for the same fibre as primary tenure holders want, there should be ample fibre for everyone. We respectfully offer the following recommendations:

1. The Province should reaffirm its commitment to the wood pellet industry as expressed in the *2008 BC Bioenergy Strategy*.
2. The Province should recognize that the “business to business” approach to obtaining fibre is inadequate and become actively engaged in helping the pellet sector to develop a policy framework to ensure long-term secure access to fibre.
3. The Province should consider mirroring a similar style of commitment provided to the harvesting sector by requiring that tenure holders to enter into long term replaceable contracts with wood pellet producers for a component of their sawmill and harvest residuals.
4. The Province should include the wood pellet sector alongside the primary forest industry on the Bio-economy Transformation Council and any other committees that have the mandate of developing fibre access strategies and policy.
5. The Province should expedite the legal framework for and implementation of supplementary forest licences. Such licences should be designed to provide a real incentive for primary tenure holders to make sufficient quantities of cost-effective fibre available to pellet producers. This will not happen if supplementary forest licences are limited to uneconomic timber areas.
6. The Province should consult with the pellet sector to change the structure of *Fibre Licences to Cut* so that they can be used effectively by the sector. This should include a commitment to developing a strategy to implement the modified licences expeditiously.
7. The Province should implement a carbon tax on slash burning that incents tenure holders to make slash piles available to wood pellet producers and eliminates the ability of tenure holders to burn harvest residuals without consequences. Slash burning should only be allowed if all other options to use the slash are exhausted and the onus should be on the tenure holder to prove that burning is the only viable course of action.
8. The Province should phase out scale-based billing in favour of cruise based billing to incent tenure holders to improve utilization and to ensure that economic value and employment are maximized from BC’s public forests.
9. The Province should make available to the pellet sector, timber that has a true economic value. The marginal stands that are currently envisioned for the pellet sector will not give pellet producers any bargaining power with large primary tenure holders. Access to higher

value timber would enable pellet producers to bargain on an equal footing with primary tenure holders by trading access to sawlogs for sawmill and/or forest residuals.

10. The Province should recognize that the pellet sector has a proven record of accomplishment over the past fifteen years. While second and third generation biofuels are enticing and may eventually become economic, the pellet sector is viable now and should be supported today.

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Background: BC in the Context of the Global Wood Pellet Industry

According to Argus Media, a leading provider of price assessments, business intelligence and market data for the bioenergy industry, global wood pellet consumption as of 2013 is 24.5 million tonnes, of which the majority – some 19.5 million tonnes is consumed in Europe. Europe’s consumption is split, 11.5 million tonnes for the power generation sector and 8.0 million tonnes for the residential, commercial and institutional sectors. Experts (Poyry, Hawkins Wright, and Mitsubishi) predict that by 2020, the European market will grow to between 35 and 45 million tonnes, Korea to 5 million tonnes, and Japan to 8 million tonnes.

Currently, 90 % of North American pellet exports – including those from BC – are transacted under long term contracts between pellet producers and European power utilities. The global wood pellet market essentially has just two market drivers. For heating markets, the driver is cost. In Europe, wood pellets are cheaper than oil, natural gas, or electricity. With bulk pellet delivery, modern pellet boilers are now as convenient to operate as natural gas or oil furnaces. In North America, where natural gas supplies barely over half of domestic heating, wood pellets are the next least cost alternative when compared to heating oil and electricity.

For the power markets, the driver is society’s desire – especially in Europe but increasingly in Asia – to reduce greenhouse gas emissions. In the European Union, this is mandated by law. The *Directive 2009/28/EC on Renewable Energy*, also known as the *Renewable Energy Directive*, sets ambitious targets for all EU member states, such that the EU will reach a 20% share of energy from renewable sources by 2020 and achieve a 20 percent reduction in GHG emissions by 2020 from 1990 levels. The Renewable Energy Directive is reinforced by national law in each EU member state. More than 50% of the EU renewable energy mix is expected to be biomass to meet the 2020 objective. Similarly, South Korea has enacted a new *Renewable Portfolio Standard* that mandates a ramp up from near zero to 10 percent renewable energy by 2020, of which half is expected to come from biomass in the form of wood pellets. As the world looks for solutions to climate change, wood pellets represent the most cost effective means of generating dispatchable renewable electricity far surpassing both wind and solar alternatives.

As of 2013, BC has 13 pellet plants with a combined 2 million tonnes of annual capacity. Together with dedicated port storage and handling infrastructure, this represents over \$500 million in capital investment. BC’s pellet industry produced more than \$300 million annual revenue in 2012 while providing approximately 400 direct jobs in rural BC communities. Notably, during the recent forest industry economic crisis, BC’s wood pellet producers invested \$150 million in manufacturing capacity and by purchasing fibre, provided a much needed revenue stream to BC’s sawmill sector during a critical period of market decline.