

Forest Products Market Update

- a news brief from Wood Resources International LLC

Rapid expansion of wood pellet capacity in North America drives sawdust and wood chip prices upward, reports the North American Wood Fiber Review

The wood pellet industry in North America has grown six-fold since 2004, reports the North American Wood Fiber Review. The dramatic expansion has resulted in higher costs for sawdust and wood chips in the regions with the greatest growth, including Western US and Canada.

Seattle, USA. December, 2009. There has been a rapid expansion in wood pellet capacity in North America the past five years, from just over one million tons in 2004 to over six million tons in 2009, according to a recent report from the USDA Forest Service. British Columbia was the first region to take advantage of inexpensive sawmill residues and to produce wood pellets for the fast growing European market.

Capacity in the western province of Canada has not grown much the past few years, so in 2009, it is likely that the US South will take over as the leading pellet-producing region in North America, according to the North American Wood Fiber Review. Much of the investment in pellet capacity in the US South has been driven by the export market in Europe. On the other hand, the second largest producing region in North America, the Western US, has so far only sold pellets into the domestic market.

In 2004, the pellet industry was practically non-existent in the US South and this sector has now grown and will reach a capacity of almost two million tons in 2009. These capacity numbers may sound impressive, the actual operating rates have been surprisingly low in both the US and Canada. In 2008, production was about 66% of capacity in the US and 81% of capacity in Canada, estimates USDA-FS. Major reasons for the low rates include start-up problems for newly built plants, financial difficulties for some companies and a lack of affordable wood fiber supply.

With increased demand for wood fiber, pellet manufacturers have increasingly had to accept higher-cost wood fiber sources than the commonly used sawdust from local sawmills. More pellet companies are now using wood chips that traditionally have been used by the pulp industry. Partly as a result of the expansion of the biomass sector, wood chip prices, sawdust prices and woody biomass prices have moved up in the US this fall.

In the US Northwest, sawdust prices have gone up substantially the past five years. In 2004, average sawdust prices were US\$28/odmt as reported by the North American Wood Fiber Review. These prices reached a peak of US\$74/odmt in late 2008 and have since fallen, averaging US\$64/odmt in the 3Q/09. The price increases that have occurred in Western US are likely to be seen in other regions experiencing rapid expansion of their pellet industries.

Pulpwood and wood chip market updates are included in the 24-page publication North American Wood Fiber Review. The report, established in 1982 and with readers in most of the large forest companies in North America, tracks wood chip and pulpwood prices in 15 key markets of the US and Canada.

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