

# Forest Products Market Update

- a news brief from Wood Resources International LLC

## **Biomass now generates 32% of all energy in Sweden, causing increased competition for pulpwood, reports the Wood Resource Quarterly**

*Biomass has now surpassed oil to become the number one source for energy generation in Sweden. The increased competition for logs and wood chips between the pulp industry and energy sector has pushed wood fiber prices to new highs, according to the Wood Resource Quarterly.*

**Seattle, USA. May, 2010.** Sweden is one of the countries in the world that has come the furthest on the road towards fossil fuel independence. Last year, the Swedish government approved a plan to have renewable energy reach 50% of the total energy consumed in the country by the year 2020, reports the Wood Resource Quarterly. In addition, the country aims to be totally independent of imported fossil fuels for the transportation sector by 2030. Although this might seem like an improbable ambition considering today's high dependency on gasoline and diesel, the government's push towards a society without fossil fuels has created much research and many investments in the renewable energy sector over the past few years.

As an incentive to use more environmentally friendly vehicles in Sweden, there are currently no taxes on ethanol while there are high energy and carbon dioxide taxes (approximately \$0.70/liter) on conventional gasoline and diesel. There have also been tax incentives for purchasing low-carbon dioxide emission vehicles since 2006.

The total energy consumption generated from biomass in Sweden grew from 88 terra watt hours (TWh) to 115 TWh between 2000 and 2009, while the usage of oil-based products (all imported) declined from 142 TWh to 112 TWh during the same period, according to the Swedish Bioenergy Association Svebio. Biomass surpassed oil to become the number one source for energy generation in 2009, accounting for 32% of the total energy consumption in the country. It is projected that biomass consumption will continue to increase by another 10% in 2011.

Energy companies in need of additional biomass are increasingly using roundwood that also could be used by pulp mills. With the rapid expansion of energy capacity generated from biomass, it is clear that the wood fiber market in Sweden has forever been transformed to a more competitive market place with two fiber-consuming sectors having quite different expansion plans for the future. Sawmill residues and small-diameter logs can now be used either to manufacture pulp or to generate energy.

Historically, the pulp and paper market has been the major driver of wood fiber prices, but with the entry of the energy sector, there are now different market forces in place. As a result, prices for smaller logs have been driven to new highs the past few years, and not likely to go back down to the levels seen during the period 1997-2006. In local currency

(Swedish krona), pulplog prices in the 1Q/2010 were almost 20 percent higher than five years ago and 36 percent higher than ten years ago, according to the Wood Resource Quarterly.

*Global timber market reporting is included in the 50-page publication Wood Resource Quarterly. The report, established in 1988 and with readers in over 25 countries, tracks sawlog, pulpwood, lumber and pellet prices in key regions around the world and also includes regular updates of the latest developments in international timber, pulp, lumber markets.*

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