

Forest Products Market Update

- a news brief from Wood Resources International LLC

Biomass prices throughout the US have been impacted by the federal program BCAP, reports the North American Wood Fiber Review

The cost for wood biomass fell in two of the major markets in the US in the 1Q 2010 partly because of the federal program BCAP, according to the North American Wood Fiber Review. The federal government is currently considering different programs of how to contribute to an increased use of renewable energy sources.

Seattle, USA. May 2010. Northern California is home to the largest concentration of stand-alone biomass plants in North America. In the 1970's the state witnessed an explosive rise in the number of plants because of a high interest in alternatives to fossil fuels. This period was followed in the early 1980's by a dramatic drop in the number of operating plants due to waning interest in green energy and falling oil prices, reports the North American Wood Fiber Review (NAWFR). The past few years there has been a resurgence in this sector as attitudes and regulations again have favored renewable energy. As a result, demand for biomass, including forest residues, urban wood, hog fuel and agricultural waste, has increased.

Northern New England is also the home to a large number of stand-alone biomass plants, many of which have been operating for more than 20 years. Unlike the wide variety of biomass sources found in California, this region – primarily Maine and New Hampshire - has historically consumed low-quality forest thinning material.

The US federal government initiated a program last year, the Biomass Crop Assistance Program (BCAP), with the intention of alleviating the biomass costs in an effort to bring more raw-material to the market. This program is now in a holding pattern. The U.S. Department of Agriculture announced the "pilot" program had been suspended. Funds allocated during the second half of 2009 and the first quarter 2010 for the initial phase totaled over US\$ 500 million dollars. However, by late April, only \$170 million had been paid out. It is expected that BCAP will be reinstated later this fall and that the full matching payments of up to \$45/BDT may target facilities converting biomass to cellulosic ethanol, new facilities and plants that convert from fossil fuels to biomass fuel. Existing facilities may receive reduced payments. More about this program is covered in the latest NAWFR.

California has been one of the few states where the BCAP program seemed to have had the intended effect, which was to bring out additional volumes of forest residues and reduce the delivered costs. In the 1Q/10, prices fell almost 30% from the previous quarter, according to the North American Wood Fiber Review.

Biomass prices in Northern New England peaked at about the same time as fossil fuel prices in 2008, which emphasizes the price sensitivity to total energy usage and prices of

fossil fuels. As was seen in California, BCAP was instrumental in New England in moving biomass prices downward during the first quarter of 2010.

Much uncertainty surrounds the biomass market in the US right now. However, two developments are certain: 1) demand for biomass will increase in the coming years, and 2) local and federal governments will surely continue to be involved in the gradual transition from fossil fuels towards an increasing usage of renewable energy.

Biomass 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 a large number of forest and energy companies in North America and Europe, tracks wood fiber prices in 15 key markets of the US and Canada.

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