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European pellet production faces raw material roadblocks despite soaring demand

Anticipated demand growth in the world's largest pellet market faces constraints from raw material scarcity and competition with other forest industries.

European wood pellet demand is booming but production in the region is constrained

STOCKHOLM, SWEDEN, November 21, 2023 /EINPresswire.com/ -- Europe represents 70% of global wood pellet demand and is experiencing resurgent growth, driven by the energy crisis and the EU's increasingly ambitious targets for renewable energy. However, pellet production in Europe will be constrained by the availability of raw materials, especially sawmill residues, increasing competition, and driving the need for alternative feedstocks.

Europe's pellet demand of 33 million tonnes in 2022 is forecast to grow by more than 30% by 2030, according to a new study by O'Kelly Acumen. This growth spans all applications, including residential heating and power plants. Currently, two-thirds of Europe's demand is met by production within the region, and Europe's pellet industry has enjoyed strong growth over the last five years. This was enabled by two trends causing an elevated supply of raw materials: the spruce bark beetle outbreak, leading to increased harvests to salvage damaged trees, and a thriving sawmill industry driven by a strong economy and lumber demand.

Competition for pellet feedstocks has intensified. Over the last 18 months, sawdust prices in Austria spiked at up to twice their previous levels, as natural gas shortages drove increased demand for pellets. Competition has also intensified for materials not typically used in pellets, with 70% higher prices for pulplogs in Austria over the twelve months to December 2022, causing concern among pulp, paper, and wood-based panel manufacturers in the region. The situation does not appear likely to improve towards 2030 with continued growth in pellet demand and reduced raw material supply.

Sawmill residues constitute the most crucial raw material for European pellet production, accounting for 80% of the mix in 2022. However, the supply of residues is dependent on sawmill production, which is not expected to match the pace of pellet demand. Currently facing contraction until at least 2025 due to reduced construction activity and weaker demand for lumber, the sawmill industry is further impacted by the winding down of bark beetle salvage in Central Europe, leading to a decrease in roundwood supply. Roundwood represents an additional 18% of pellet materials, with recycled wood products contributing 2%. All pellet materials are important feedstocks for either the pulp or panel industries.

Developing the use of alternative raw materials in pellets poses challenges. While the supply potential of forest residues and purpose-grown energy crops is large, their utilization remains low. Ramping up supply requires the establishment of new supply chains and the active involvement of forest owners, loggers, and farmers. Furthermore, these materials are better suited for industrial pellets, a segment largely dominated by imported pellets. As Europe's pellet demand continues to grow, a substantial portion of this growth is expected to be captured by pellet producers in the US and Canada, while many European producers maintain their focus on the residential segment and traditional feedstocks.

These insights are derived from a just-released report, “European wood pellets – Fueling the Energy Transition” published by O’Kelly Acumen. For more information about the study or to inquire about purchasing the 100-page report in easy-to-read slide format, please contact Glen O'Kelly (glen.okelly@okelly.se). A Table of Contents of the report is available on our website: www.okelly.se.

O’Kelly Acumen AB is a consultancy providing market intelligence on forest product markets globally.

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