

Voluntary Report – Voluntary - Public Distribution

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Report Name: Wood Pellet Production Update

Country: Russian Federation

Post: Moscow

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Prepared By: Nicholas Kharabadze

Approved By: Deanna Ayala

Report Highlights:

Wood pellet production in Russia has steadily increased over the past decade, largely driven by exports to Europe where European pellet demand for consumer households and commercial heat and power plants is rising as EU countries increase their use of renewable energy under the Renewable Energy Directive. The EU-28 is the primary destination of Russian wood pellets, accounting for approximately 94 percent of Russian exports and 79 percent of all Russian wood pellet production in 2018. So far, in 2019, between January – July, wood pellet production reached 766 thousand tons, which is 121 percent higher compared to the same period last year. FAS Moscow expects production and exports to further increase in 2019 as European Commission mandates and Member State incentives expand within member countries.

Production

According to the Russian Federal State Statistics Service (Rosstat) the country produced 1.4 million metric tons (MMT) of wood pellets in CY 2018, which is approximately a four percent increase from CY2017 data of 1.34 MMT, a modest growth considering the 30 percent increase that was seen between CY16 and CY17. Industry sources, however, indicate that production statistics for wood pellets by Rosstat primarily capture large-capacity factories, while mid-sized and smaller facilities, which operate as part of larger mills, do not report their production. As a result, FAS Moscow believes the actual wood pellet production is closer to 1.8 MMT, which matches FAOSTAT estimates.

The North-West Region accounts for most of the production but Siberia and the Central Federal District recently reported increases in the production capacity of wood pellets (see Table 1). Several pellet mills were constructed in connection to larger sawmills, providing companies abundant raw pellet material for the growing market opportunities, primarily in the European Union. In 2018, Segezha Group, one of the largest vertically integrated timber holding companies in Russia, began pellet production at two of its facilities, Sokol Integrated Woodworking Plant (North-Western District) and Lesosibirsky LDK No.1 JSC (Siberian Federal District). It is reported that the former will have an annual capacity of 70,000 tons, while the later will have a capacity of 12,000 tons, which will be mainly available for export.

In CY2019, between January – July, Rosstat is reporting wood pellet production at 766 thousand tons, which is 121 percent higher compared to the same period last year.

Table 1: Point of Origin of Russian Exports by Federal District

Russian Production Statistics By District			
Commodity: 4401.31, Wood Pellets			
Quantity (Metric Tones)			
Region	2016	2017	2018
NORTH-WESTERN FEDERAL DISTRICT	568,009	791,178	841,717
SIBERIAN FEDERAL DISTRICT	209,615	355,419	400,641
CENTRAL FEDERAL DISTRICT	137,844	149,303	183,242
FAR EASTERN FEDERAL DISTRICT	126,321	124,631	71,959
VOLGA FEDERAL DISTRICT	24,790	17,387	12,715
SOUTHERN FEDERAL DISTRICT	320	608	500
URAL FEDERAL DISTRICT	6,191	90	271

Source: Federal Customs Service of Russia

Trade

CY2018 wood pellet exports totaled a record 1.511 MMT. The EU-28 was the primary destination, as the customs data shows 1.423 MMT were exported to the EU-28, which is approximately 94 percent of

all exports, making EU-28 the primary destination of Russian woods pellets. This export figure closely resembles import data referenced in FAS EU Biofuels Annual Report (NL1902) 1.364 MMT. Leading export destinations include Denmark, Sweden, Italy and the United Kingdom, who account for approximately 69 percent of Russian export share worldwide. With FAS Moscow wood pellet production estimates of 1.8 MMT in CY2018, the EU-28 absorbs approximately 79 percent of all Russian production. Europe will continue to be the largest importer of Russian wood pellets as European Commission mandates and Member State incentives could expand demand by about 30 MMT in 2019 (GAIN EU-28 Annual Biofuels report (NL1902)).

Referencing GAIN report NL1902, the EU-28 reported total imports from Russia of 1.364 MMT. Russian industry suggest the variations could arise from the wrong classification of wood pellets under other 6 digit codes within the larger 4401 heading code of the Harmonized Commodity Code for fuel wood. There are a variety of 6-digit identification codes including 4401.10 or 4401.12 that could skew the reporting figures. Furthermore, the increased trade flows of wood pellets during winter months and toward the end of the reporting year cause variation between data sources from Russia and the EU. Even at the reduced 1.364 MMT estimates, Russia is the third largest exporter of wood pellets to the EU, after the United States and Canada.

Table 2: Russian Wood Pellet Export Destination

Rusian Export Statistics				
Commodity: 4401.31, Wood Pellets				
Year Ending Series: December, 2015 - 2018				
Quantity (Metric Tones)				
Partner Country	2015	2016	2017	2018
World	934,863.81	1,073,087.57	1,438,517.92	1,512,441.33
EU-28	859,361.08	929,779.69	1,296,055.96	1,425,320.76
Denmark	381,501.27	399,436.95	615,117.50	668,734.82
Sweden	154,051.99	129,750.36	120,142.27	149,621.56
Italy	68,808.29	62,332.79	105,830.13	146,825.95
United Kingdom	12,694.54	51,487.02	61,910.56	84,225.51
Netherlands	38,448.40	93,391.10	57,147.93	77,170.94
Korea, South	72,113.33	129,374.05	127,518.50	76,623.69

Source: Trade Data Monitor, LLC

Table 3: PS& D for Fuel Pellets

Wood Pellets (1,000 MT)										
Calendar Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019f
Beginning Stocks	0	0	0	0	0	30	80	30	20	10
Production	620	718	935	1,010	1,185	1,260	1,330	1,750	1,836	2,070
Imports	0	0	1.1	1.4	1.3	2.1	2.7	4.8	2.0	3.2
Exports	430	520	730	743	879	934	1,073	1,438	1,512	1,705
Consumption	190	198	205	268	278	278	310	326	336	335
Ending Stocks	0	0	0	0	30	80	30	20	10	44

f = forecast

Source: Rosstat (Russian Federal Statistical Service), Russian Customs Committee, Federal Forestry Agency, FAOSTAT, Trade Data Monitor, trade contacts, & National Bioenergy Union.

Certification

Since the majority of Russian wood pellets are exported to EU countries, Russian producers are guided by the standards of those countries. For *non-industrial wood pellets*, the European Pellet Council (EPC) developed sustainability criteria called ENplus, based on EN 14961-2. It includes sustainability requirements for the entire supply chain. For *industrial pellets*, the [Sustainable Biomass Partnership](#) (SBP) developed a sustainability scheme based on existing programs, such as the Forest Stewardship Council (FSC) or Program for the Endorsement of Forest Certification (PEFC). Currently, 118 wood pellet producers in Russia own FCS certificates.

Transportation Subsidy

Since 2017, Russian exporters of wood pellets have been eligible for domestic support through the Russian Export Center (REC), which acts as the government agent for distribution of subsidies and state guarantees and directly supports exporters and investors abroad. Industry sources estimate that in 2018, around half of the total three billion rubles allocated by the Russian Government for the support of exporters engaged in deep wood processing, went to cover up to 80 percent of the exporters' transportation costs. ([Official](#) Rub to Dollar Exchange rate as of September 18, 2019 is 64.43 Rub per USD). Experts believe that this measure will stimulate further expansion of the development of wood pellet producers, which is currently export oriented.

Consumption

Domestic markets for wood pellets in Russia are very marginal, and domestic demand for pellets remains low. Russia does not show any signs of increasing incentives to support domestic consumption, and, barring any change, the industry will remain heavily export dependent. Currently, there are no economic or legislative drivers in Russia to support significant growth in the domestic consumption of wood.

Attachments:

No Attachments.