



# **Biomass, Renewable Energy Mandates Distort Markets**

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**Paper and wood product manufacturers are the nation's leading producer and user of carbon-neutral renewable biomass energy.**

Paper and wood products manufacturing facilities account for 62 percent of the renewable biomass energy consumed by all manufacturing sectors, most of which is derived from manufacturing residuals. This process is among the most efficient in the world, using by-products and residuals to create both thermal and electrical energy, commonly referred to as combined heat and power (or cogeneration) technology. While new emerging technologies are being developed, today's biomass energy is heavily dependent on wood fiber. This same woody biomass is an essential raw material for value-added forest products, such as paper, packaging, wood products, wood-based chemicals and other innovative products.

**Any government policies should avoid mandates and incentives that distort the market for woody biomass raw materials.** The cumulative effect of government mandates and incentives for promoting the use of biomass for energy – such as in state Renewable Portfolio Standards, state and regional greenhouse gas regulations for utilities, other climate policies and the Renewable Fuel Standard – could upset the forest use/product markets balance. Where governments institute incentives or mandates for renewable energy, those policies must treat existing industry energy generation from biomass equally with newly-created renewable energy generation, promote sustainable forest management and provide incentives for reliable and affordable regional fiber supplies rather than a particular use, while maintaining open market access.

**Foreign governments should eliminate or minimize subsidies that distort the U.S. market for biomass.**

European government subsidies seeking to achieve the European Union's (EU) 20 percent renewable energy mandate by 2020, led to a rapid increase in U.S. wood pellet exports to the EU, soaring from an estimated 446,000 metric tons in 2010 to an estimated five million metric tons in 2017, according to data from the U.S. Census Bureau. RISI estimates that U.S. wood pellet exports to Europe will jump to 10.6 million metric tons in 2019.

A 2015 study by RISI found that subsidies provided by the U.K. government to electric utilities that use wood pellets as a fuel can significantly distort pulpwood markets in the U.S. South. In particular, the study found that if the subsidies paid to the utilities are passed on to pellet plants in the South, the pellet plants could afford to pay more than twice the current market price of pulpwood under the existing subsidy scheme and almost five times the price under the new replacement subsidy scheme. However, without these subsidies, pellet plants would lose money given current average market price for pulpwood in the south. The RISI study also found that the vast majority of feedstocks for those pellets are pulpwood (76 percent) and clean sawmill residuals (12 percent) that otherwise could be used to produce products such as pulp, paper, packaging and wood panels.

In December 2018, the EU Council of Ministers adopted a 32 percent renewable energy target by 2030. This is an EU-wide target, without binding national targets, so it will be up to each individual member state to determine how it will respond to the 2030 goal and whether to make changes to the current high subsidy levels that impact wood biomass markets.



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P. 2

## Policy Recommendations:

- AF&PA opposes government mandates and incentives that distort the market for woody biomass raw material for U.S. paper and wood products manufacturers.
- AF&PA believes market forces, not government mandates and incentives, should determine the use of wood and wood residuals for renewable energy. Where state or federal governments institute incentives or mandates for renewable energy, those policies must give equal treatment to existing industry energy generation from biomass markets for energy and other uses. Policies also should include safeguards to minimize disruptions in the flow of fiber and related market distortions, promote sustainable forest management and provide incentives for reliable and affordable regional fiber supplies rather than a particular use while maintaining open market access.
- Renewable energy policies should not require forest products manufacturing facilities to compete on an uneven playing field with their power suppliers and other energy producers for biomass fiber.
- Policies that have the unintended effect of diverting biomass supply to subsidized energy use have the danger of undermining highly-efficient renewable energy production at existing facilities in the forests products industry. These policies should be avoided; the risk of manufacturing job loss due to product diversion is compounded with the loss of existing renewable energy use.
- Similarly, AF&PA opposes any definition of biomass that includes municipal solid waste that does not specifically exclude commonly-recycled materials, because these policies risk diverting paper that would otherwise be recycled into new products.

Recognizing the long growing cycle for forests, we believe any government policies that encourage additional demand for biomass should be coupled with policies that increase the available long-term supply of wood to meet future demand for paper and wood products as well as new and growing markets for energy and other uses. Policies also should include safeguards to minimize disruptions in the flow of fiber and related market distortions.

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*The American Forest & Paper Association (AF&PA) serves to advance a sustainable U.S. pulp, paper, packaging, tissue and wood products manufacturing industry through fact-based public policy and marketplace advocacy. AF&PA member companies make products essential for everyday life from renewable and recyclable resources and are committed to continuous improvement through the industry's sustainability initiative — Better Practices, Better Planet 2020. The forest products industry accounts for approximately four percent of the total U.S. manufacturing GDP, manufactures nearly \$300 billion in products annually and employs approximately 950,000 men and women. The industry meets a payroll of approximately \$55 billion annually and is among the top 10 manufacturing sector employers in 45 states. Visit AF&PA online at [afandpa.org](http://afandpa.org) or follow us on Twitter [@ForestandPaper](https://twitter.com/ForestandPaper).*

