



Wood Pellet Manufacturers to Benefit from QE2

On November 3, 2010, the Federal Reserve announced a second Round of Quantitative Easing (QE2). While the demand for wood pellets has been sluggish over the past two heating seasons, the Fed's move will likely stoke increased demand and mills need to prepare and position themselves for growth.

Pellet demand has experienced wild swings over the past several years. Sharp upticks due to Hurricane Katrina and the meteoric petroleum price escalation in 2008 were countered by painful demand destruction when oil prices plummeted, leaving mills with excess capacity and tonnage. Fortunately, a unique set of circumstances are occurring that should restore some vitality to the industry.

QE2 refers to the purchase of \$600 billion in Treasuries by the Federal Reserve. The move is intended to stimulate the US economy, yet it has caused both a decline in the dollar and a rise in commodity prices. As the dollar continues to weaken, oil prices will likely rise further from their current level of \$86 per bbl. OPEC has gone on record as saying that if the Fed did pull the trigger on QE2, they would seek an oil price of \$100 per bbl. Oil prices at this level will cause consumers and business to seek alternatives to petroleum heating sources.

The demand revival will likely be both domestic and foreign. Here in the U.S., a weak economy has left consumers seeking cost savings which includes the cost of home heating. As the dollar declines vs. the Euro, we will likely see increased demand for bulk delivery to Europe due to favorable exchange rates. European nations are generally ahead of the U.S. in terms of bulk delivery and pellet usage. In preparation for increased demand, pellet mills need to take the following risk mitigation steps into account:

Supply chain: Do you have a reliable source of raw material, and secondary suppliers as backups? Can your operations cope with whole logs or wet sawdust?

Fire Protection: Have your fire suppression systems been inspected, tested and updated? Do you have appropriate measures to reduce combustible dust per the new OSHA regulations?

Employee Safety: Have you updated your workplace safety manuals, and do you have a formal training program that can be introduced to new hires?

Equipment: Have you performed necessary maintenance on dryers, baggers, coolers and palletizers etc?

Demand for wood pellets should increase just in time for the 2010-2011 heating season and beyond. Mills that take proactive steps will be best positioned to capitalize.

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