

Policy and Regulatory Outlook for the EU: what should Canadian pellet producers expect?

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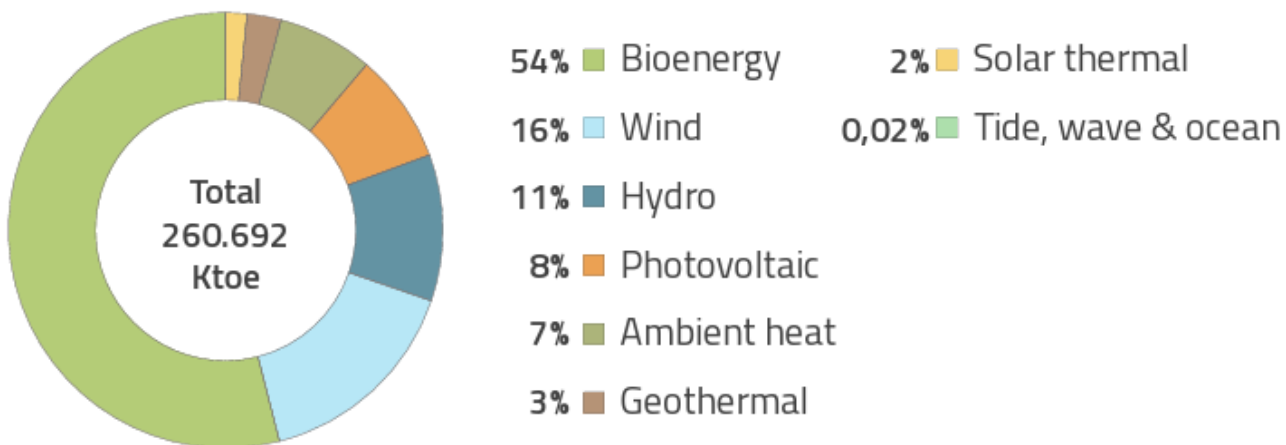


- Last Wednesday, Ursula von der Leyen invited Mark Carney to attend the State of the Union address in Strasbourg;
- Canada's proposal to become an "associate member" of the EU was publicly endorsed
- Quote from the SOTEU address: *"So, we need to double down on our affordable and homegrown, clean energy. Be it renewables and nuclear. Or biomethane and others. Technologically neutral. But they must give us independence. For this independence, we need to electrify Europe."*
- Wood pellets are **presumably** included in the "others"
- Technology neutrality vs. electrification emphasis
- **The EU – Canada relationship has never been stronger – also on the energy sector (read: LNG)...**
- **... but does this mean much for Canadian pellet producers?**
- **The short answer is: not really (but not because you are Canadians!)**

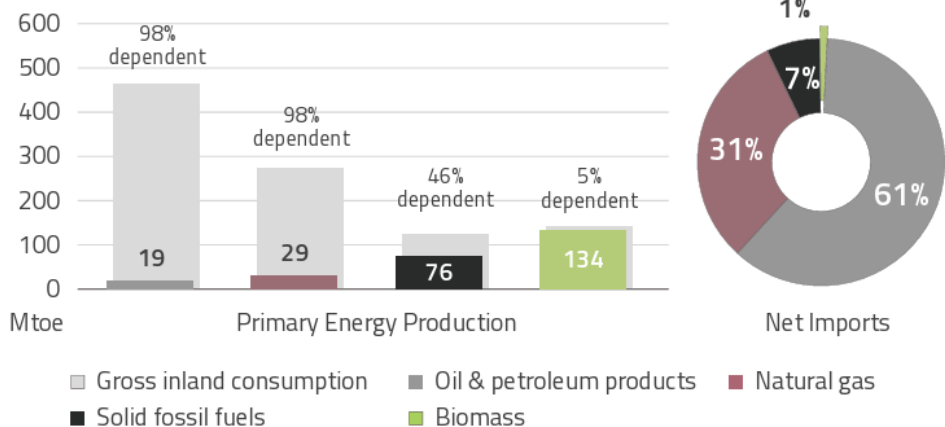


EU bioenergy: the facts vs. the political reality

Renewable energy mix in the EU27 in 2023 (ktoe, %).



Consumption, production, imports & dependency of different fuels in EU27 for 2023 (Mtoe, %).



Some of the facts:

- Bioenergy (incl. wood pellets) is the EU's largest renewable energy source and essential to meet EU and MS RES targets
- More than 6 million EU households are heated using wood pellets
- Wood pellets have a major role in the electricity & DH sector in Netherlands, Denmark and overseas French territories
- Europe is much less dependent on bioenergy compared to fossil fuels

vs. the political reality

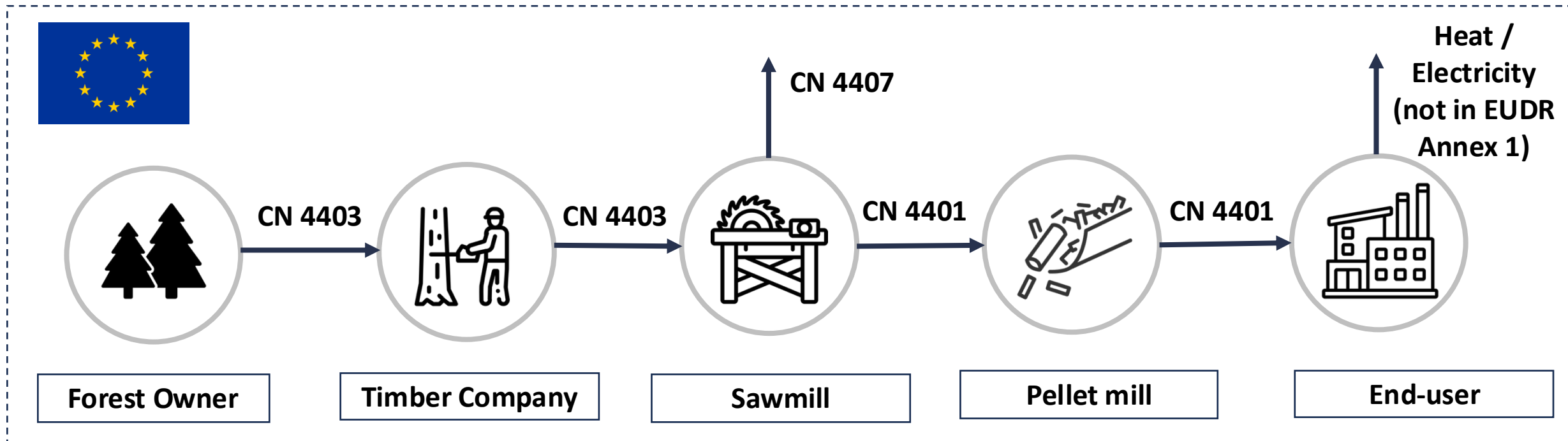
- Bioenergy (incl. wood pellets) is often discriminated against in EU legislation
- The situation is complicated by an overabundance of complicated and bureaucratic legislation... and differences in transposition / implementation across Member States
- Industrial competitiveness is increasing returning to the table... but usually to the benefits of fossil fuels rather than biomass

First example: EUDR

EUDR – European Deforestation Regulation

- ✦ EUDR does not explicitly target pellets; broader coverage of wood and other commodities → good for building advocacy alliances and broader requests (e.g. simplification, postponement), but not necessarily so good for achieving sector-specific solutions
- ✦ Simplification package of December 2025 benefitted primarily EU producers
- ✦ Those that import Canadian (or other non-EU) pellets in the EU have to meet the original requirements (e.g. geolocation)
- ✦ Proposals to exclude secondary woody residues (e.g. sawdust) from the scope of the Regulation have been disregarded
- ✦ Impact on the pellet market (and other commodities) from December 2026 onwards remains to be seen

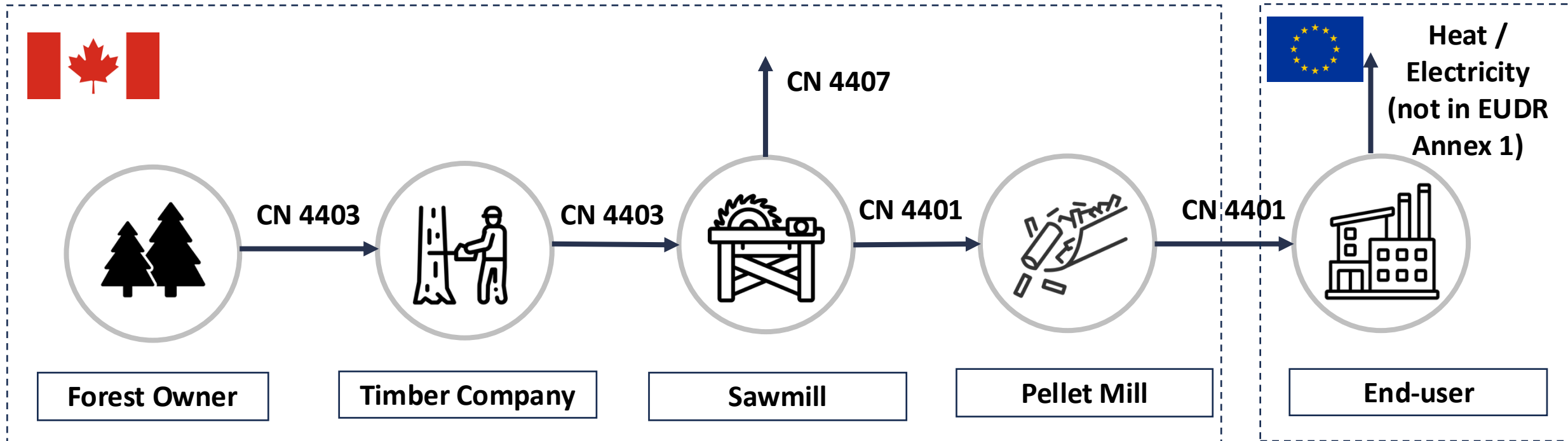
EUDR - Pellet supply chain within the EU



Disclaimer: the following analysis is based on our understanding of the revised regulation.

- **Forest owner:** upstream operator, required to submit a DDS. If small/micro, the DDS can be simplified.
- **Timber company:** first downstream operator. Required to collect and retain the reference number of the initial DDS.
- **Sawmill:** downstream operator. If non-SME they need to register on the Platform. No obligation to submit a DDS or retain reference numbers.
- **Pellet Mill:** downstream operator. If non-SME they need to register on the Platform. No obligation to submit a DDS or retain reference numbers.
- **End-user:** not in the scope of EUDR, since they produce products not in Annex 1.

EUDR - Imported pellets into the EU



Disclaimer: the following analysis is based on our understanding of the revised regulation.

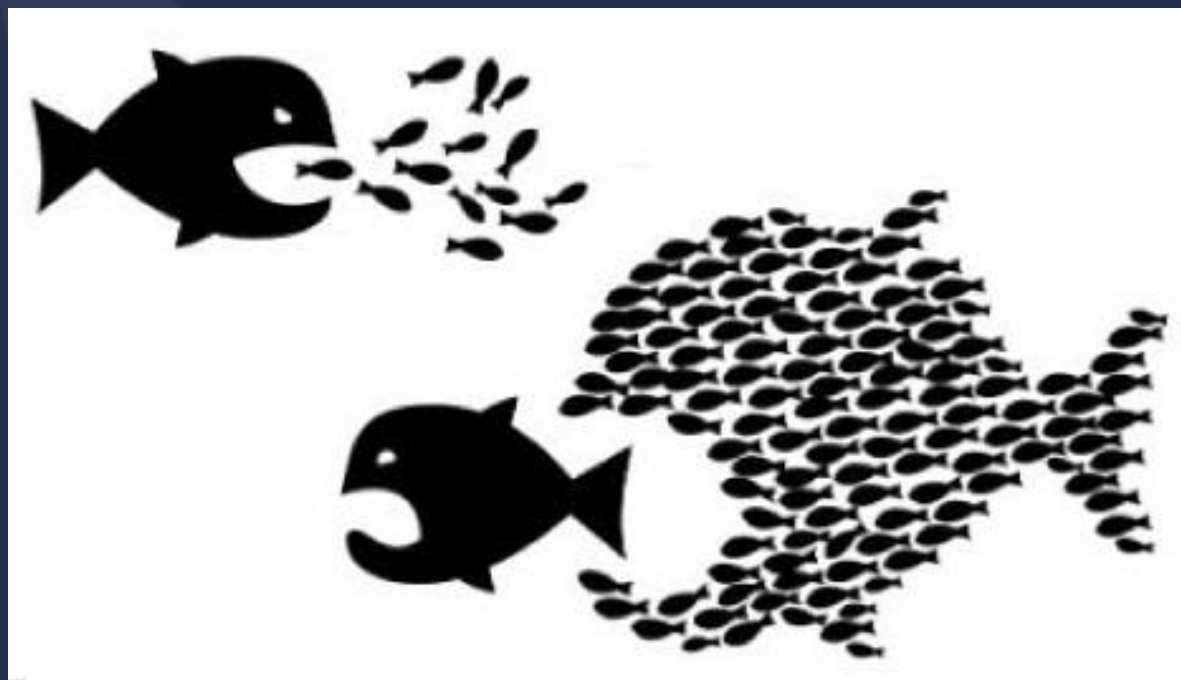
- **End-user:** transformation of pellets into heat/electricity is not in the scope of EUDR (products not in Annex 1). However, usually the end-user first places a product on the EU market, so they need to ascertain due diligence and submit a DDS. Alternatively, a trader might be the first placer and responsible for the DDS.
- **Pellet Mill:** they should provide data so that the first placer on the EU market can submit the DDS.
- **Forest Owner, Timber Company, Sawmill:** the Pellet Mill should collect data (e.g. geolocation) from them, to be passed on to the end-user for the DDS.

Second example: RED

RED – Renewable Energy Directive

- ✦ From REDII in 2018 to stricter REDIII in 2023...
- ✦ ...still REDIII not transposed in all Member States
- ✦ Jan 2026: consultation for revising GHG values for Annex VI → tighter default values for forest biomass value chains, “admission” of political motivation to disincentivize forest biomass
- ✦ Ongoing revision of Commission Implementing Regulation (EU) 2022/996 on sustainability certification → again, tighter framework (possibly as a response to UCO linked frauds):
 - ✦ e.g. retroactive annulment of PoS in cases of non-conformities, increased audit frequencies, etc.
- ✦ Draft leak of RED IV impact assessment:
 - ✦ recognizes need for simplification of sustainability criteria (sounds positive but risk of re-opening)
 - ✦ introduces new Scoreboard (unclear, but probably intending to benefit local supply chains and smaller operators)
 - ✦ cap on primary biomass use for households (negative)

Don't panic, Organize!



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