

APX-ENDEX is on the verge of launching the world's first wood pellets exchange later this year. The company's product manager, Sipke Veer, explains what motivated the development of the exchange and the benefits it will bring

# LAUNCH OF A NEW EXCHANGE

**APX-ENDEX is launching the first biomass exchange in the world later this year. How did the idea for this develop?**

**Sipke Veer (SV), product manager, APX-ENDEX:** APX-ENDEX launched the industrial wood pellets price index in 2008 in response to the market's need for price transparency. There has since been increased interest in the trade of biomass contracts and, as exchange-traded contracts did not exist, APX-ENDEX saw this as an opportunity to respond to the requirements of the market.

**How are the preparations going for the launch of the exchange?**

**SV:** APX-ENDEX and Port of Rotterdam finalised a feasibility study in November 2010 and announced their intention to launch the world's first wood pellets exchange in 2011.

The market consultation to launch trading and the product specifications were finalised during the European summer, the trading rules have been set up, the design of the trading system has been determined, and the opening hours have been set. After the market rules are approved by the Netherlands Authority for the Financial Markets, members will be able to sign up in preparation for the start of the exchange trading in wood pellets.

During this process, APX-ENDEX has kept in close contact with the market participants already active in either co-firing (energy companies) or the production of wood pellets, as well as trading companies and storage facilities providing services in this market. Their support has been vital to APX-ENDEX in launching the wood pellets exchange.

**When do you expect to launch the exchange?**

**SV:** APX-ENDEX and Port of Rotterdam have decided on a two-phased approach to developing an operational exchange. In phase one, the exchange will start with non-cleared products, meaning the physical settlement will be arranged bilaterally between the counterparties. Phase one is expected to start in the fourth quarter of 2011. Phase two will follow at a later stage when the trading and clearing solution can be combined.

**What is Port of Rotterdam's role in this project?**

**SV:** The functional roles of the new wood pellets exchange is divided between the trading aspect and the operational aspect. APX-ENDEX will provide the trading platform for trading biomass products, including the clearing services as scheduled for phase two, and Port of Rotterdam will contribute its expertise with regard to shipping, storage and distribution of biomass products – for example, facilitating the infrastructure required for the physical settlement of the trades.

**What are the opportunities of biomass trading?**

**SV:** Price transparency in the market has improved in past years, partly due to the launch of the APX-ENDEX wood pellet price index, which is now widely accepted by the market as a reference price. Furthermore, the industrial end-users of the wood pellets started an initiative to standardise the technical product specifications and sustainability

## Industrial wood pellets exchange:

- The industrial wood pellets price index was launched in 2008 to increase transparency.
- The pricing panel was launched in 2008 and currently has 14 members.
- Nine contracts are offered: three months, three quarters and three calendars.
- Exchange trading to be launched during the second half of 2011 in co-operation with Port of Rotterdam.
- A two-phased approach for the launch will start with non-cleared products, and clearing will follow shortly afterwards.
- Wood pellets will be listed on Trayport's Global Vision Trading Gateway.

criteria. Legislation and regulation is becoming more precise and detailed on a national level and this will be beneficial to the development of the biomass trading market.

**How does APX-ENDEX see the wood pellet industry evolving?**

**SV:** The global market volume for industrial wood pellets is predicted to grow. In 2010, the volume was approximately 10 million tonnes and, in 2015, it is expected to reach 20–25 million tonnes, eventually reaching 60–80 million tonnes by 2020. We are convinced of the growth potential of the biomass market, especially with regard to the 2020 climate targets.



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