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# *WOOD FUEL PELLETS*



*RENEWABLE FUELS*

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# An Introduction of *FRAM* & Discussion of Exporting Pellets

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John Colquitt, President  
Fram Renewable Fuels  
Savannah, Georgia  
[www.framfuels.com](http://www.framfuels.com)



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# Who is Fram?

- Fram is a new start company with its home base in Savannah, Georgia which is, at this point in time, dedicated to the export of wood fuels to European customers.

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# Fram's Folks

## ■ John Colquitt, President

- Educated as forester and engineer, with forestry and ocean shipping experience plus 11 years of pellet manufacturing experience and sales of pellets in Europe.

## ■ Harold Arnold, Vice President

- Earned marketing degree and having 36 years experience in forestry equipment, operations, and marketing experience
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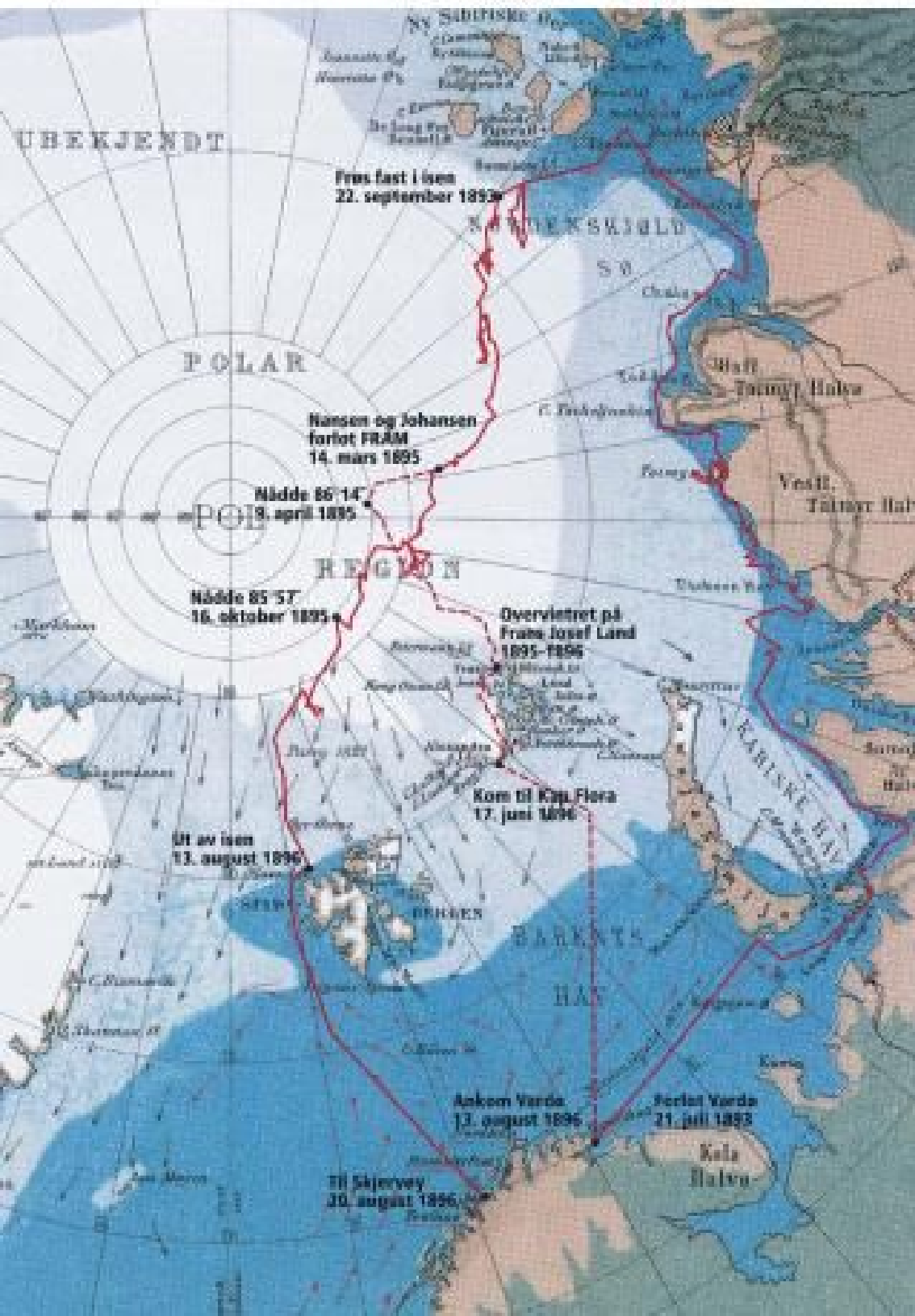
# Fram Translated:

- Norwegian ≡ Out Front, aggressive
- Swedish ≡ Out Front, aggressive

# FRAM (the ship)



# FRAM (the ship)



**FRAM**  
RENEWABLE FUELS

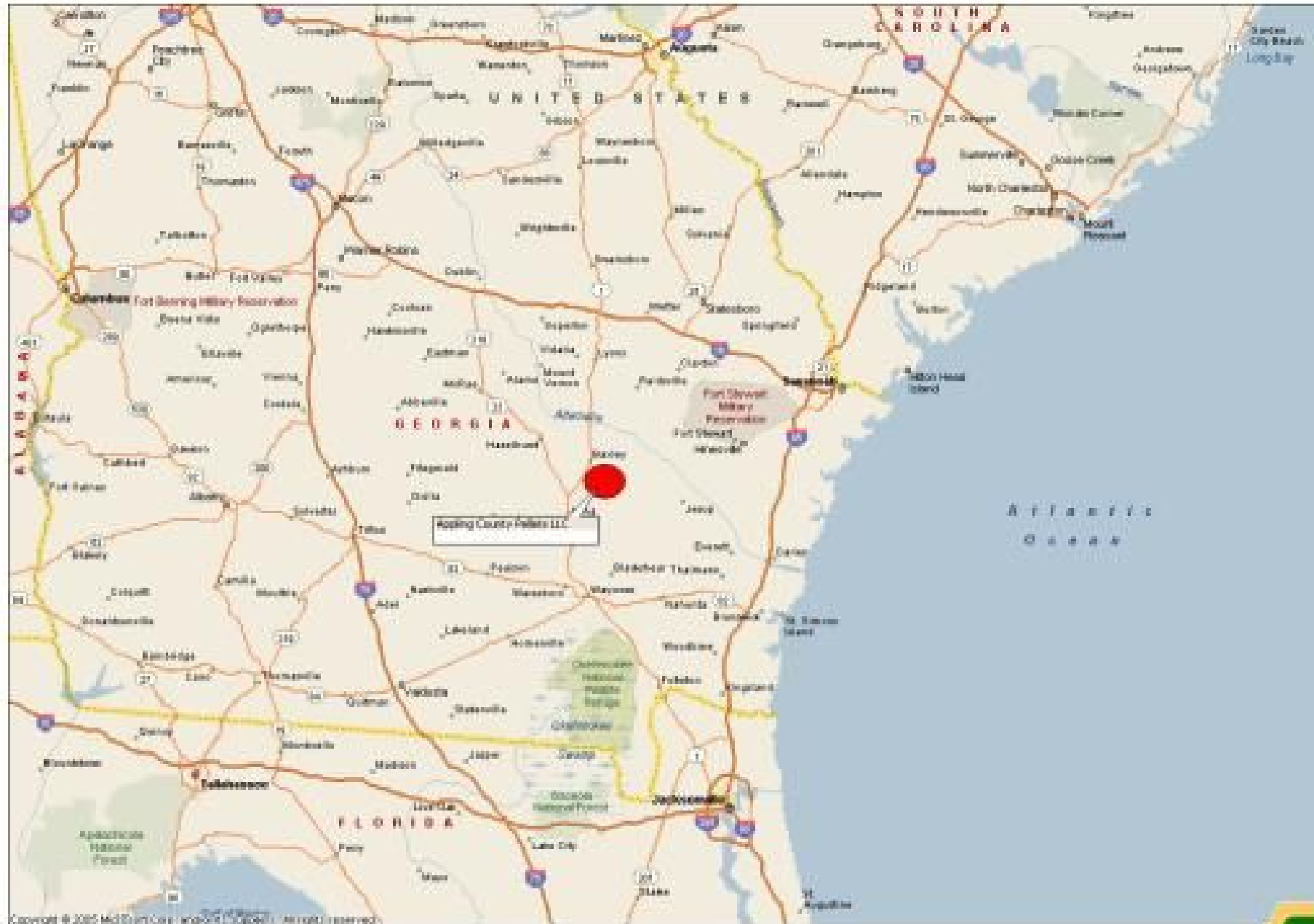
# Status of Fram's First Mill

- Location: Appling County, Georgia
  - Capacity: 145,000 **short** tons/Yr.
  - Raw Material 280,000 **short** tons/yr.
    - Saw Dust
    - Bark
    - Whole Tree Chips
    - Logging debris
- Start up date set at November 1, 2007
- Watch us build at [www.framfuels.com](http://www.framfuels.com)



# Appling County Pellets LLC

Wholly owned by Fram Renewable Fuels LLC



# *First Quiz*

- How many here have exported pellets to Europe?
- How many of you are considering the export market?

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# **Kyoto Protocol (Global Warming) drives the bulk market in Europe.**

- **Subsidies , taxes and fines are used to guide the fuel purchases**
  - **Wood pellets can otherwise not compete with fossil fuels**
  - **Government regulations are subject to change**
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# Most Significant Markets Outside of North America

## Europe

Sweden	Generating Stations , domestic
Denmark	Generating Stations , domestic
Netherlands	Generating Stations, some domestic
Germany	Generating Stations and domestic
UK	Generating Stations and little domestic
Italy	Generating Stations and domestic
France	?
Spain	Generating Stations

## Japan

Generating Stations

# Government Support Systems

Sweden :	Taxes on all fossil fuels
Denmark:	Government subsidies
The Netherlands:	Government Subsidies
Germany:	Government Subsidies
UK:	Screwed Up taxes/incentives
Italy:	Government taxation
France:	?
Spain	?
Japan	?

# Some Reasons to Export

- Year Round Sales (to some extent)
- Credit worthy customers
- Long term, often bankable contracts

# Possible reasons not to Export

- **Currency Risk**
- **Political Risk**
- **Shipping Risk**
- **Weather Risk**
- **Long Term Agreements nail down your price**
  - **Some agreements provide for escalation**
- **Shipping Risks**
  - **Hazards**
  - **Rates**
  - **Cargo Rejection**
- **Sales cost**

# Exchange Rate Risks

## Euro vs USD last 12 months





# Political Risk

- Politicians – not too keen on taking firm stands that will increase the cost of energy in their countries
- BUT – also want to follow public opinion about being **Green**

# Shipping Hazards

- North Atlantic weather
- Shipping is uncertain
- Cargo is tied up for
  - 90 days awaiting vessel and
  - 11 days at sea
- Possibility of hatch leaking in transit
- Carbon monoxide concerns

# Other Shipping Problems

Wood Pellets: 7500 M. Tons

Ice: 500 M. Tons



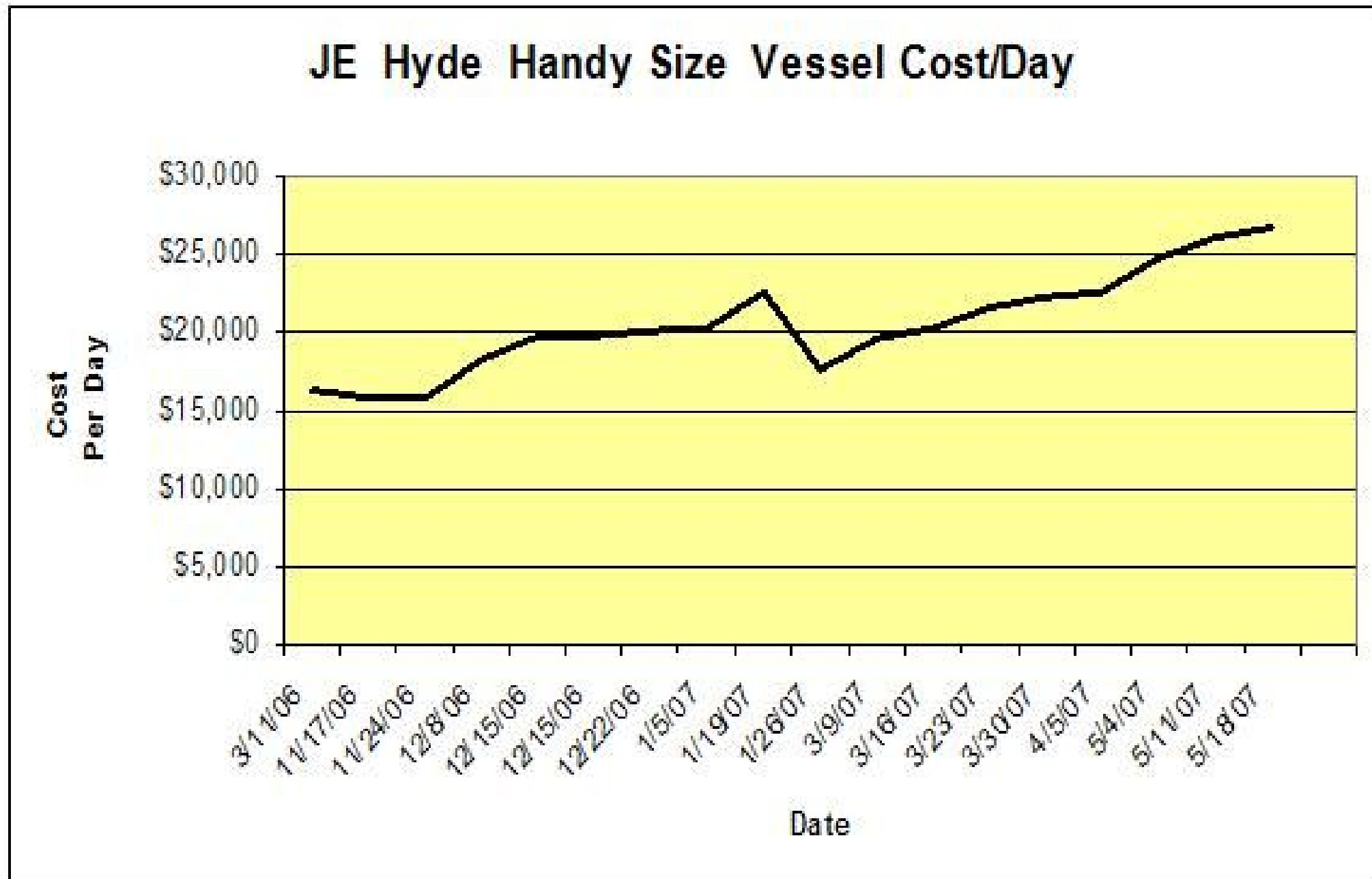
# Other Shipping Problems:

Wood Pellets: 7500 M. Tons

Ice: 500 M. Tons



# Shipping Rates are volatile !



## Vessel requirements, specifications and conditions

If the Biomass is shipped in vessels, Seller warrants and undertakes that:

- a) the vessel is a single deck bulk-carrier or Ore/Bulk/Oil carrier (OBO) classed Lloyds + 100 A1 or equivalent with self-trimming holds without obstacles and without longitudinal bulkheads;
- b) each vessel shall be maximum twenty-five (25) years old on completion of voyage;
- c) each vessel shall be in every respect suitable to enter, berth at and leave the declared Loading Port and Discharge Port
- d) each vessel shall be in every respect suitable for the loading and carriage of the Biomass cargo and that prior to commencement of loading the vessel's cargo space is swept and clean and ready to receive cargo;
- e) each vessel shall be in every respect suitable for carrying out proper draft surveys;
- f) each vessel shall be in every respect suitable for the grab discharge of Biomass in bulk and no cargo is to be loaded in deep tanks or bunkers or in any other compartment not readily accessible to grabs;
- g) deep tanks, tunnels, tanktops, access ladders, brackets, bilges, manhole covers/bolts, pipes and all other provisions within vessel's holds shall be properly protected against damage by stevedore's grabs;
- h) each vessel shall be fully compliant with and have on board all relevant and current certificates required by Loading Port and Discharge Port. In particular, if the vessel is an OBO, Seller shall procure a gas free certificate at the Loading Port and Discharge Port and Seller shall ensure that such certificate remains valid throughout the whole of the loading and discharging operations. The vessel's cargo gear, hold ladders and all other equipment shall comply with the regulations and requirements of the Loading Port and Discharge Port;
- i) each vessel shall comply with the current ISPS code, IMO regulations and recommendations applicable to the carriage of Biomass;
- j) each vessel shall comply with the requirements of the International Safety Management (ISM) Code. Upon request Seller shall provide a copy of the relevant Document of Compliance (DOC), Safety Management Certificate (SMC) and insurance documents to Buyer.

# Sales Costs

- Long term cost is about \$8.00 per ton
- People necessary to sell pellets are scarce
- Room and Board is very expensive:
  - Stay in London will be about \$1,100 per day in 3 star accommodations.
- Round Trip Airfare will be about \$5,000
- Customers are far apart.

# More Possible Reasons not to export

- **Buyers are very tough negotiators**
  - Dutch: Known to be the best traders in the world
  - Belgian: Try to keep up with the Dutch
- **Weights are determined by ship's draft.**
- **Buyers are very strong and proud of it**
- **All of your eggs will be in one basket**
- **Sales are made on Net Heat Value, Constant Pressure (NHVCp).**
- **Out of spec can be a serious problem!**
- **Often unbearable contract provisions and legal cost.**
  - **Foreign Attorney will be needed.**



# Examples of Some Unbearable Cancellation Provisions

- **Engineer's Out:** Provides for cancellation if the engineers determine that pellets are not a good idea
- **Politician's Out:** Provides for cancellation if their laws change
- **Market price Out:** Provides for cancellation if the market price changes in favor of the seller

### *Underdelivery*

If Seller fails to deliver at least ninety five (95) % of the nominated delivery (an "Underdelivery") by the due date of delivery, unless this failure is due to Force Majeure, and such Underdelivery has not been cured within one (1) month, Seller shall pay to Essent an indemnification fee ("Damage") of:

The Damage is calculated as follows:

$$(1 * 2) - (1 * 3) + 4 + 5 + 6 = \text{Damage}$$

Where:

- 1) The Underdelivery quantity (Contracted Quantity –delivered quantity)
- 2) Market price, in Eur, to be determined in good faith and in a commercially reasonable manner, for each tonne of Biomass Buyer purchases to make up the Underdelivery;
- 3) Contract price
- 4) Broker fee
- 5) Penalty, of Eur 50,000 per occurrence
- 6) Spread in the costs of the hedge of the currency involved.

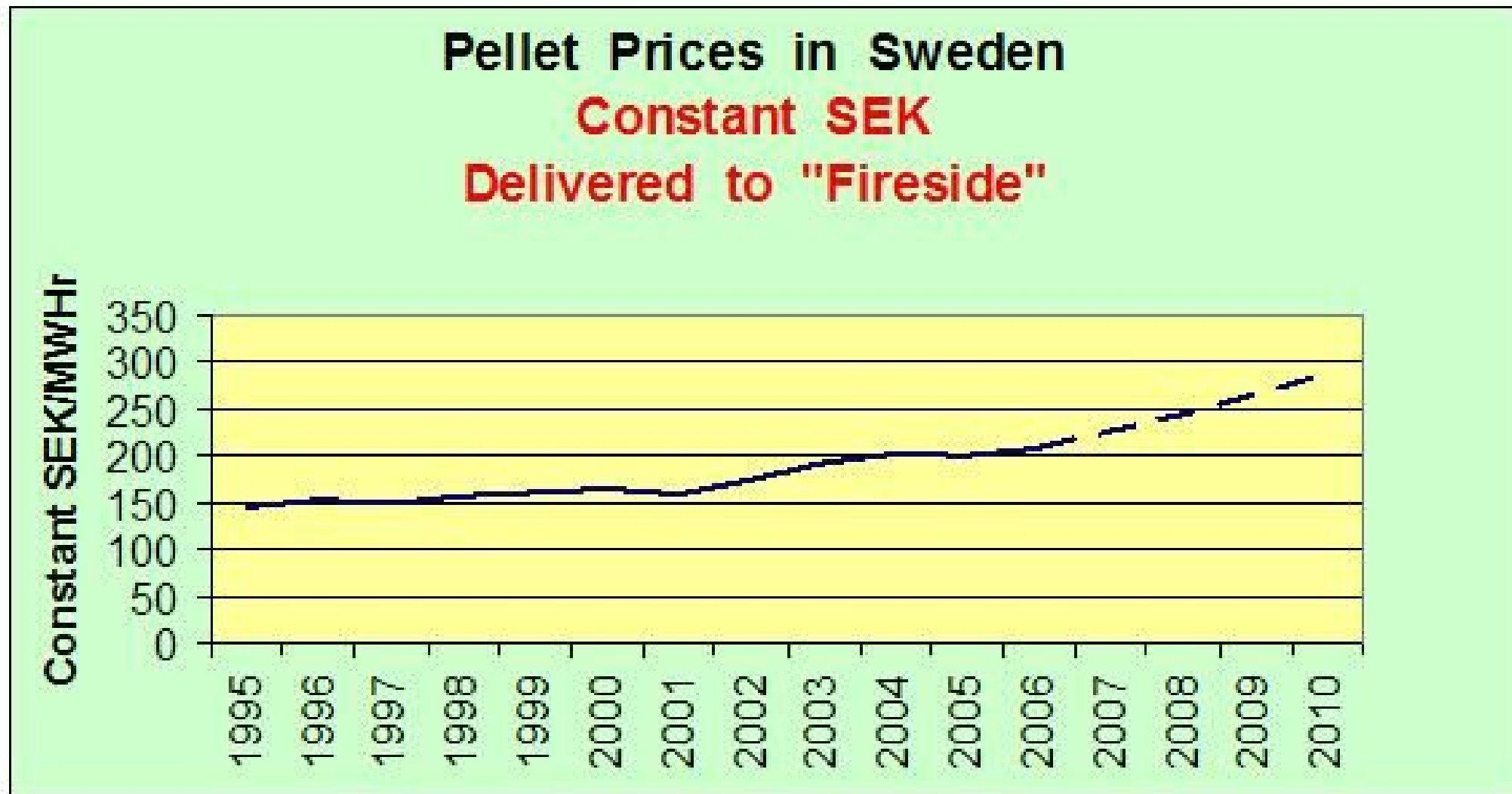
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# Prices in Europe:

## Good News and Bad News

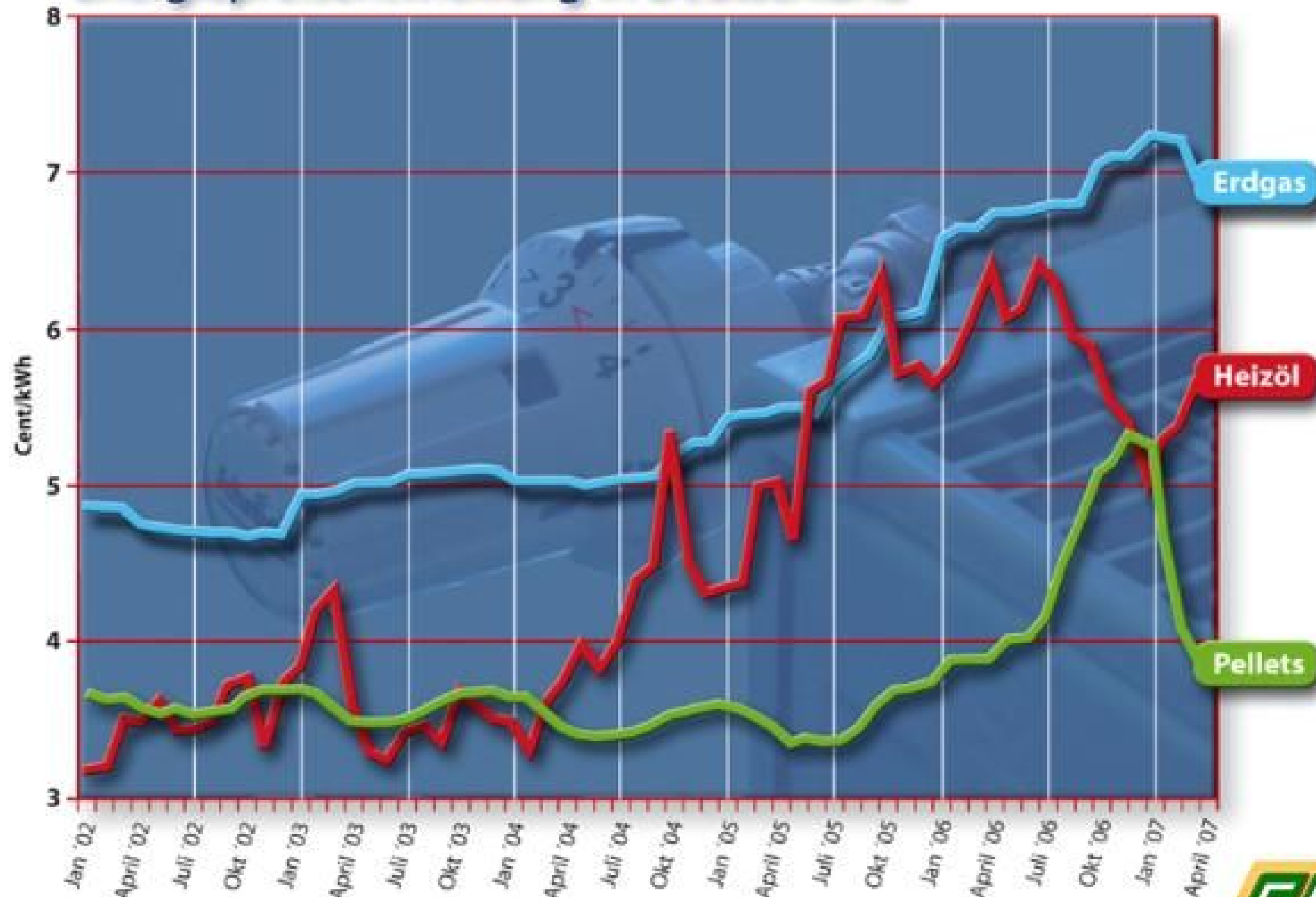
- Prices have been going up in Europe
- Prices have been going down in Europe

# *The Good News !*



# The Bad News: Prices have gone down in Germany

## Energiepreisentwicklung in Deutschland



Quelle: Pelletspreise = Deutscher Energie-Pellet-Verband e.V./ Solar Promotion GmbH  
Heizöl- und Erdgaspreise = Brennstoffspiegel

Basis: Verbraucherpreise für die Abnahmen von 3.000 l Heizöl;  
33.540 kWh Gas bzw. 6 t Pellets (inkl. MwSt. und sonstig.  
Bezugsgröße: unterer Heizwert

motion GmbH, April 2007 [www.interpellets.de](http://www.interpellets.de)



# Final Quiz

- How many of you would still like to export?
  - The answer to this will depend upon your circumstances.
    - Positive if you can find a way to combine domestic sales with export sales!



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(912) 233-8805

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