



A NATION OF BUILDERS: MANUFACTURING IN AMERICA

SUBCOMMITTEE ON COMMERCE, MANUFACTURING, AND TRADE

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Summary

Fram Renewable Fuels, L.L.C., was one of the first wood pellet producers and exporters in the Southeast United States. Our wood pellets are made of 100% virgin wood that has been dried and compressed into pellet form. These pellets are then exported to Europe where they are used in the place of coal to generate electricity. The European Union's decision to implement a progressive renewable energy policy presents a great opportunity for rapid growth in the U.S. wood pellet industry.

Fram currently exports over 300,000 metric tons of wood pellets to Europe annually and will increase to more than 1 million tons being exported to Europe in 2015. We, in the U.S., are unique in that our wood resources are proven sustainable and have been in proven forest management programs for decades. There is an expectation, by the industry, that the U.S. will export over 12 million tons (per year) of wood pellets to Europe by 2020. This presents a great opportunity that is also a great responsibility for a young, developing renewable energy market.

Fram recognizes and applauds the U.S. government for supporting businesses that increase American exports. We are a part of the USDA small business loan guarantee program allowing us to secure financial support for expansions to increase our productivity. The financial component of our operations, like many within the industry, has the ability to make or break our business as a whole. Support in the form of production and investment tax credits as well as small business loan programs are necessary and helpful to ensure the U.S. remains a leader in the renewable energy market abroad. In addition to that, timely attention to issues at American ports is vitally important as we work to get the most economic shipping rates. The adoption and extension of programs and policy like the above will help this developing market continue to grow.

Introduction

Fram Renewable Fuels, L.L.C.(Fram) respectfully submits this testimony to the “Our Nation of Builders: Manufacturing in America” hearing of the House Subcommittee on Commerce, Manufacturing and Trade.

As one of the first large scale producers and exporters of wood pellets in the Southeast, Fram has gained valuable experience through the development of this new renewable energy market. This exciting new market offers great opportunities for expansion of the U.S. wood pellet production industry, and with that opportunity comes much responsibility.

What are Wood Pellets?

Wood pellets are made of 100% virgin wood fiber that has been dried and compressed into the pellet form. The reasons for processing this material into the pellet form are increased energy density and logistical optimization. Wood pellets are made by utilizing wood residuals, sawdust and chips, from various wood processing mills, or by using whole trees that are chipped and then processed into wood pellets. Fram’s wood pellets are manufactured from sawmill residuals from approximately 25 sawmills in the areas surrounding the processing plant. Wood pellets are available in two main quality groups. Residential wood pellets are often smaller in diameter, produce less ash and are a light golden tan color. Industrial wood pellets are larger in diameter, can produce up to 1.5% ash and are often a darker brown color. Fram focuses on industrial grade wood pellets, but also has the capability to produce a small volume of residential grade pellets for the European residential market. Once processed, these wood pellets are shipped across the Atlantic Ocean in approximately 25,000 metric ton vessels and burned in the place of coal at various power stations in Europe.

Who Uses Wood Pellets?

Wood pellets are used for three main purposes around the world. First, they are used by homeowners on a residential scale to burn in a wood pellet stove to generate heat to warm homes. These high quality, residential pellets are typically sold in bags at local retail stores and big box retailers. Second, some pellets are used in combined heat and power plants (CHP) or boilers. These plants produce a small amount of power but also provide heat for urban homes, buildings or small cities. CHP systems have allowed industrial facilities and building owners to save money on energy costs and reduce the environmental impacts of fossil fuel use. Third is the use of wood pellets for electricity generation. In this use, wood pellets are purchased by large power stations and burned in the place of coal to reduce carbon emissions that cause global warming. The largest users of wood pellets are currently the large scale European power generators.

Why Use Wood Pellets?

When the European Union signed the Kyoto Protocol, the decision was made to begin work on an energy policy that would reduce greenhouse gas emission and be in compliance with the agreed targets. In March 2007, the European Union set forth its path toward the future through the “20-20-20 Targets”. The three key objectives for this policy are: 1. a 20% reduction in greenhouse gas emissions from 1990 levels; 2. raising the share of EU energy produced from renewable resources to 20%; 3. a 20% improvement in the EU’s energy efficiency. Of these, the most important to Fram is the requirement that 20% of EU energy is produced by renewable resources by 2020. This provides a great opportunity for the growth of the wood pellet industry

in the United States and is one of the major factors in the rapid growth in the European renewable energy market. Wood pellets are recognized by many in the industry as the lowest cost, most quickly deployable renewable resource available today for base load power. Because of the EU's 20% renewable target, Fram, and the wood pellet industry have an opportunity to supply the major power stations in the EU with wood pellet fuel for many years to come.

Manufacturing in America

Currently Fram manages wood pellet activities for several production facilities in Southeast Georgia, and is responsible for exporting over 375,000 metric tons of wood pellets annually. As a result of Fram locating in this area, there are approximately 55 local people that are employed in Fram's wood pellet mills. In addition to direct jobs, Fram's locating its production plants in southeast Georgia has proven to be an economic stimulus for existing logging crews, logistics companies, and local businesses. In an effort to merge seamlessly into a predominately pulp and paper area, Fram developed strategies to make our wood pellet business complement the existing forestry related businesses already located in the area.

Once formed in 2005, Fram began planning what would later be known as Appling County Pellets (ACP). As part of our due diligence process, we literally searched the entire eastern seaboard from South Florida to the maritime provinces of Canada looking for the most optimal area to locate this wood pellet plant. Then we realized what we had in Southeast Georgia. Why would we locate thousands of miles away, when we are living in the wood basket of the world? So the decision was made and Fram decided to position its first pellet plant in a small agricultural town in the heart of Southeast Georgia called Baxley.

Appling County Pellets, LLC (ACP) was operational in late 2007, employing approximately 40 people directly and another 400 indirectly throughout various parts of the supply chain. From logging, to trucking to administrative and contract labor needs, Appling County Pellets further enhances the economic well being of Baxley as well as many of the surrounding communities. An investment of over \$25 million was made to build ACP on a 25 acre site in Sweetwater Industrial Park and little did we know at the time that this plant was just the beginning of our journey in this market. Appling County Pellets underwent an expansion in 2010 to increase production capacity to 230,000 metric tons annually. Over time, ACP's operations are becoming more efficient and productive. In being such, we have recently broken daily, weekly and monthly production records that were thought to be at the apex of production capabilities. We strive to continue breaking records and increasing productivity.

In recognizing the growth in the European residential market, Fram was able to take a position in a company that could produce residential quality wood pellets, Telfair Forest Products (TFP). This facility is located in Lumber City, Georgia, whose name even seems to be an indication of the need for wood processing facilities. The investment at TFP totaled over \$10 million resulting in production capacity of 120,000 metric tons of high quality residential grade wood pellets annually. Since February 2012 this facility has added 14 positions to handle wood pellet operations for Fram. In such a small, close-knit community all jobs are very much appreciated and sought after by local citizens. Surrounding truckers and area raw material suppliers enjoy a stable market for continued business with a company they have confidence in.

In 2009 various other small pellet producers in Southeast Georgia recognized an opportunity to partner with Fram to create 8 additional jobs, produce roughly 45,000 metrics tons and be a part of Fram's portfolio of producers. These operators appreciate the chance to produce

wood pellets on a scale they are comfortable with, as well as having a reputable, experienced company like Fram to handle marketing and logistics is a major benefit to their businesses.

Our next wood pellet facility will be Hazlehurst Wood Pellets, LLC (HWP), located in Jeff Davis County. This wood pellet plant will be a two phase project with phase one currently under construction. The first phase of this project will employ over 50 people and require a \$60 million investment. Phase two will employ an additional 25 people and an additional \$30 million in investment. In total this facility will have a major impact not only on Hazlehurst but on all surrounding counties. Indirectly over 400 jobs will be retained or created in the various parts of the wood pellet supply chain. Investment and job creation of this magnitude is not a common occurrence in such small towns in Southeast Georgia. Thus we have received overwhelming support from the community and local officials to help get this project off the ground. It is with their continued efforts that we strive forward with our vision to be one of the most significant wood pellet exporters from the United States.

Foreign Markets

The most overarching explanation for Fram's export success is progressive European renewable energy policy. Over 4 million tons of wood pellets were imported into the EU in 2012. The United States supplied over 1.5 million tons of those pellets and is expected to supply 12 million tons by year 2020. The 20 % renewable energy target mentioned previously drives the demand for wood pellets in Europe to conservative estimates of 40 million tons in the year 2020. This great opportunity requires that the U.S. act quickly to ensure our position as global leader of industrial wood pellet production stays intact.

Helpful U.S. Government Support

Fram is most appreciative of the support the U.S. government has provided to help businesses in emerging and difficult markets. The U.S. wood pellet industry is a mystery to many in the financial sector, as well as being capital intensive early in the construction process. Therein is a great opportunity for the U.S. government to provide support in the form of loan guarantee programs. Investment and production tax credits are also great ways for the U.S. government to continue to encourage small businesses to grow in manufacturing.

The ports through which we export this product must be maintained in order to receive vessels that provide the most economical shipping rates. Timely attention to issues concerning channel depths and dredging is essential for our export activities to continue such rapid growth.

Ultimately, it is the financial component of a business that allows for growth or, on the other hand, can cause its demise. Great programs like the ones referenced above as well as timely attention to port issues can offer companies that would like to take a part in this rapidly growing renewable energy market a fair chance.

Conclusion

Fram thanks the subcommittee for the invitation to provide this testimony and is excited about the great opportunity we have to increase exports from the U.S. Southeast. Global demand for renewable energy will continue to rise and it should be a priority for the United States to be at the forefront of that movement. Wood pellet resources from the United States have the capability to make a significant positive economic, social and environmental contribution within the renewable energy market. Through government cooperation, support and encouragement the

U.S. wood pellet industry will continue to be a global leader in production and export of renewable energy.