

## WHY PAPER PRICES ARE RISING SO RAPIDLY AND SUBSTANTIALLY

At a time we are all hoping to regrow our business following the devastating effect of the Coronavirus pandemic and the resulting lockdowns, we are faced with rapid price escalation in the cost of paper, why is this?

### PULP

Pulp is a global commodity and as such pricing is very much determined by overall supply and demand. We therefore need to look beyond our own home and 'close by' markets to really understand what is happening. The graphical paper market represents around 30% of pulp requirements on a global basis, the other big users are packaging and hygiene (tissues etc). In the Western world the consumption per capita of graphical papers is decreasing, however in other continents it is growing rapidly, as is the consumption of packaging and hygiene products. Pre pandemic studies had already suggested that if normal trends continued global pulp supply would be tight until 2022/23 when new production capacity came on stream.

That is a bit of background, this is what is happening on the ground now.

The pandemic forced many pulp mills, particularly those in South America, to delay or postpone their necessary maintenance shuts as specialist engineers and indeed parts could not be put in place to carry out the work due to travel restrictions. These planned maintenance shuts will now take place in 2021 and will reduce supply temporarily.

The Asian markets, particularly China who entered the pandemic with low pulp stocks, are buying at a very rapid rate, probably to support both their domestic needs but also packaging for exports. There is a futures market for pulp in Shanghai and this is fuelling price increases at a rate previously unknown, although recent reports suggest this is beginning to 'come off the boil'.

Closer to home in Europe demand is stronger than may have been expected, however much of this is again for hygiene and packaging products. Graphical paper makers that have integrated production (they make their own pulp on site), always treat their pulp and paper making divisions as separate profit centres. In summary whilst there may be "mates rates" between the pulp division and the paper division, the pulp division will not sell to its own company too cheaply when it can achieve far greater returns on the open market. Pulp increases have traditionally been of the order of \$30 - \$50 however latterly increases in the region of \$90-\$110 have been forced through the supply chain, thus making the need for paper makers to recover costs far more quickly than has previously been the case.

Going forward many are suggesting that the current inflation in price of pulp is unsustainable and it is expected the second half of 2021 will see a levelling off, if not decrease in pricing. That said many are pointing out that the world is a unpredictable environment due to Covid and therefore any projections need to be treated with caution.

### ENERGY

This is an area that every paper mill is stating is also prone to significant price inflation as is having a serious input on their production costs. It is difficult to quantify the exact impact as each mill has its own energy source, whether that be gas, electric, oil or biomass. That said whilst it is impossible to know the details for each producer ultimately energy prices are linked to the price of oil in some shape or form. It is of little value comparing the price of crude oil from a year ago when it hit rock bottom due to the drop in demand caused by lockdowns, however the price of crude is now back above the level it was in December 2019 and is continuing on an upward trend.

A better guide to energy cost is natural gas that a majority of European paper producers would utilise as their primary energy source, the price of this is currently 32% higher than in December 2019, and 125% higher than April 2020.

### LOGISTICS

Globally logistics have been severely disrupted by the pandemic, many ships were idled as trade volumes fell and currently there is a shortage of space on vessels from Asia to the West, as a result prices for sea transit from China have increased by up to six times as much as pre-pandemic. Closer to home logistic costs around Europe have increased, partly to cover increased fuel costs, but in the case of the UK there has also been additional costs associated with dare I say it Brexit and the additional time that is being allowed for customs clearance and the various testing regimes that were put in place by France around Christmas time.

All in all the perfect storm on input costs and hitting at a time that papermakers have suffered poor utilisation rates during 2020, they therefore are keen to ensure their survival by implementing price increases to try and keep up with these escalating costs.



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Graph showing the rising cost of Pulp

Below is a graph showing the rising cost of pulp.

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Pulp Europe

