

Paper and Pulp Shortages and Price Increases in 2017.

What's affecting Global Market Reactions?

OVERVIEW

SECTION 1

Introduction

SECTION 2

Company Foreword

SECTION 3

China's Paper History

SECTION 4

Current Events Affecting Paper and Pulp Production

SECTION 5

The Global Paper Market

SECTION 6

allpack's® Position

INTRODUCTION

SECTION 1

Welcome to allpack® Packaging, 'Paper and Pulp Shortages and Price Increases 2017'. The aim of this paper is to explain the historical factors and current political policies affecting the Global Paper Market, shortages and price increases.

The packaging industry continues to grow in strength as retailers accept the need for packaging supplies, that both protect goods and look attractive. How we package items is vital to the longevity of our products and customer perceptions. In fact, according to IBIS World the growth of the packaging market has been influenced in several ways. Firstly, government spending, e-commerce growth, industrial activity and higher consumer spending power. As far back as February



2016, IBIS World were reporting that the rise in paper and pulp costs, was not all bad news: "Paper-based packaging manufacturers are in a strong position to protect profit margins, with the rising demand for packaging products." IBIS World believed that the rising costs should just be passed off to buyers, however, what IBIS World did not see coming, was the decline of the mills and restrictions on exported paper to the world's second largest producer

of Paper and Pulp, China. We explore what has taken place to date, how that is affecting the global market and what we can do to protect the European Paper Market, as shortages occur and prices increase, month on month.

¹ IBIS World: Wood Pulp Prices Continue to Rise: Jesse Chiang Feb 2016

² IBIS World: wood Pulp Prices Continue to Rise: Jesse Chiang Feb 2016

COMPANY FOREWORD

SECTION 2



allpack® Packaging is committed to providing current and informative, industry based updates on the issues affecting the packaging industry.

allpack® is a one-stop-shop European Supplier of packaging consumables and services, based in the West Midlands. With over twenty years of packaging expertise, we have evolved and adapted our range of services to give our customers cost effective solutions to packaging. We have enormous manufacturing and purchasing power, resulting in competitive price, supplying recognised quality brands and bespoke design services. We work with and for our customers to develop a deep understanding of their needs and continually strive to source new and innovative materials.

The paper and pulp industry directly impacts on packaging companies globally. allpack® customers have been, as yet, unaffected by the events that have unfolded. However, it is necessary to keep updated on the current situation, so that our customers can make business decisions based on sound, factual information.

We hope that you will find this information helpful, as we move into an uncertain time in packaging.

allpack® Packaging

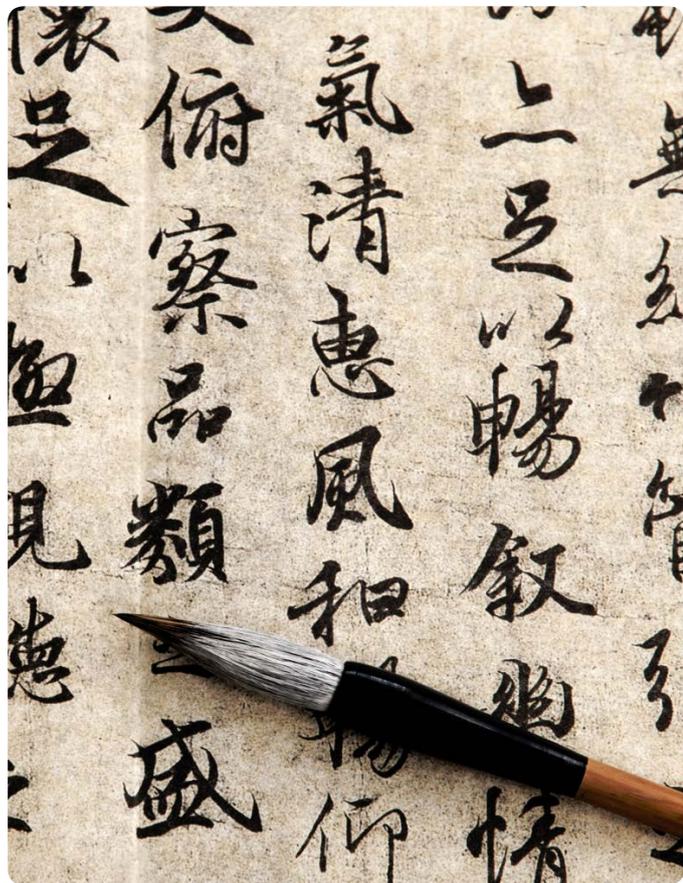
allpack 
PACKAGING

CHINA'S PAPER HISTORY

SECTION 3

Paper was first invented in Ancient China, AD105. Chinese paper making, spread to the Islamic World where pulp mills and paper mills were used for commercial gain. By the 5th century medieval Europe were papermaking too.

China, although considered the second largest paper manufacturer in the world, has historically experienced shortages in the supply of wood pulp. 'The domestic production cannot satisfy the domestic consumption.....due to old production technique and lack of high-quality raw materials.' The raw material shortage in China, stems from lack of forest resources. Back in 1998 deforestation caused flooding and the Chinese pulp industry was forced by government to rely solely on plantations. This led to China, importing wood pulp from countries such as: Canada, Indonesia, Russia, Chile and the USA. In fact the UK currently exports 1.1 million tonnes of waste paper to China, according to ESA UK. International markets supply wood chips, wood pulp and recovered paper.



CURRENT EVENTS AFFECTING PAPER PULP PRODUCTION

SECTION 4

In the last few years, China has implemented environmental policies aimed at returning the country to a green and pleasant land, but along the way, paper and pulp mills have become the casualties of that war. According to letsrecycle.com, the chinese government has cracked down on factories polluting the waterways. Some mills have been illegally disposing of waste water and have been closed down. Greg Knowler of Joc.com states: "Factories are struggling to comply with the rules that are not clear and once they have been shut down, there is little information on how to reopen or how long that process will even take. The impact is ranging from complete factory shutdowns to temporary closures with unknown timeframes."



The mills now face a crisis on a different level; supply of wood pulp from other countries. With China using over 50% of wood pulp from international sources, the decision by the Chinese government to ban mixed waste paper has led to docklands amassing large containers full of waste paper. Large shipping companies such

as Maersk and Hapag Lloyd have either seen a reduction in waste delivery or are refusing consignments of waste paper, destined for China. The Chinese government are set to make a final decision on imported waste paper in November.

Continued on next page.

CURRENT EVENTS AFFECTING PAPER PULP PRODUCTION

SECTION 4

So, what are the consequences of all these events. Recycled pulp is used in paper and board production, so a potential ban could be devastating to Chinese Mills. The closures of mills has meant production shortages which has resulted in finished paper doubling in price from 6,000 yuan (\$902/tonne) as raw materials shrink. Large e-commerce retailers need boxes and normal supply routes have all but dried up, or are increasing in cost. China's Ministry of Environmental Protection has already stated that the ban on recycled imports and factory closures would not push up prices, however, recent events seem to suggest otherwise.

³ Wikipedia: History of Paper

⁴ China's Pulp and Paper Industry: A Review: Zhong Zhuang, Lan Ding, Haizheng Li

⁵ www.PWC.com/gx/en/forest_paper_packaging.pdf/paper_and_pkg_china_book.pdf

⁶ Joc.com: Massive Chinese Factory Closure Threatens Components: Greg Knowler Senior Asia Editor: 06 Sept 2017

⁷ Reuters.com: China ban waste imports lead to piles of paper abroad, surging prices in China: by Pak Yiu 28 Sept 2017

THE GLOBAL PAPER MARKET

SECTION 5



The Global Paper Market is unsteady at the moment. Companies are becoming nervous, as can be seen by the latest news from German Mill, Zanders, who have announced a price increase of 5-8% on all paper grades, effective from 1st January 2018. They cite these reasons for increases: "The result of continuing increases in raw materials, namely pulp and chemicals"

However, on the upside Brazilian Mill, Fibria, have just announced: "This quarter was very positive for Fibria. Our new pulp mill in Três Lagoas started production ahead of schedule and under budget, bringing new volumes to market at a very favorable moment for pulp producers." Despite this news, Fibria have implemented price increases for July, September and now October / November, as supplies of pulp and paper are restricted and demand remains strong.

NBSK (Northern Bleached Softwood Kraft) is a premium pulp, prized for its strength and reinforcing characteristics which is set for a price increase too. Already achieved in September, with little resistance, NBSK is set to increase by \$40/tonne, taking it up to \$960/tonne. Sellers are confident due to the tight market, surging prices in China and steady demand in Europe.

Continued on next page.

THE GLOBAL PAPER MARKET

SECTION 5

Hannah Zhao - Senior Economist, Recovered Paper:

"This Year has proved to be challenging for the global recovered paper (RCP) markets. The markets have been extremely volatile in most of the key regions for several reasons. In addition to the basic demand and supply dynamics in each region, China has once again been playing a key role in the recent global market turbulence."

There are small signs that some mills are getting back on their feet, whilst others are cautious, but what is clear, is that buyers have very little leverage against the sellers, thus, prices will continue to rise, whilst demand remains solid in Europe.

London Pulp Week is around the corner (9 November 2017) and keynote speakers and seminars will be covering all aspects of the paper and pulp shortage and the inevitable price increases. If you want to get involved, visit: www.pulpweek.co.uk

⁸ Paperage.com: Zanders to hike prices for all its paper grades on January 1st: 25 Oct 2017

⁹ Paperage.com: Fibria Third Quarter Net Revenue Up Sharply on Pricing, Volumes: 24 Oct 2017

¹⁰ RISI: Prices [Accessed 26.10].

allpack's® POSITION

SECTION 6

allpack® are in a very positive position right now, regarding prices of paper and board, so our customers have not felt the true impact of China's policies. As a company we have manufacturing capability in multiple European countries and demand for top grade packaging products are at an all time high. We shall continue to review the global market and endeavour to make any changes necessary to ensure that your buying power remains uninterrupted.

