

## Decor paper supply situation remains strained during the first quarter

Next round of price increases is to be wrapped up by early April

Decor paper producers have so far experienced barely any reduction in their order backlogs. This contrasts with other segments of the wood-based panel and surfaces industry, where manufacturers have recently found themselves with slightly better availability. Most decor paper companies are generally working to capacity. Paper machines can now stay busy until April or May with orders on hand and firm reservations.

The print base paper segment is most likely to have some leeway after several printers recently scaled back weekend shifts previously introduced to cope with strong demand. A similar trend is currently emerging among treater operators. Order intake for pre-impregnated paper has improved again since the fourth quarter, following a downturn in late summer and autumn, whose severity varied depending on the manufacturer. The ordering situation for intense-coloured papers remains difficult, with delivery dates stretching into the third quarter.

Decor paper manufacturers continue to enjoy significant order intake as many customers are still taking a precautionary approach to ordering in order to secure supply in the longer term. Many companies would plan even farther in advance if decor paper manufacturers were not limiting advance orders and rationing material. These quotas are likely to be maintained in the

coming months as order intake remains brisk.

Dwindling shipments from China have also helped to keep European decor paper machines busy, decor paper producers and converters note. The sharp uptick in freight costs and mounting shipping delays have led converters in Russia, Turkey and the Middle East to order more from European manufacturers. These buyers had previously been served by suppliers in China, too.

Their paper machines are still operating at good capacity utilisation as a result. Production is running without any major restrictions. Most decor paper manufacturers only idled production from shortly before Christmas until New Year. A few companies limited the downtime to public holidays, so they kept making decor paper between Christmas and New Year. Slightly elevated stocks resulting from paper mills making extra during this period ran out relatively quickly in the first week of January, though. Decor paper capacity is to be utilised as much as possible in the coming months as well. Paper mills are currently experiencing restrictions due to ongoing supply problems for various raw and auxiliary materials, which have made short-term production changes necessary here and there. The next round of major scheduled maintenance shutdowns typically will not happen until Whitsun or the summer months.

Several decor paper manufacturers note that raw material and production costs have not subsided yet, either. Contract prices for eucalyptus pulp have stayed the same since mid-2021, but prices have risen slightly due to the weaker euro against the US dollar. At least one producer has now announced the next mark-up for February. However, costs for various pigments have continued to climb. Contract prices for titanium dioxide pigments used to make decor paper rose by up to €200/t again in the first quarter, with converters still having to dig even deeper into their pockets for additional spot lots. This translates into cost increases of €4-8/100 kg for decor paper, depending on the titanium dioxide content.

Most decor paper manufacturers have found that energy costs have become an even more critical issue in recent months. Some companies tacked on energy premiums in the fourth quarter as a result. In the latest negotiations, manufacturers mainly cited high energy costs and renewed mark-ups for titanium dioxide as the rationale for charging more. General cost increases are also being discussed in some instances.

Overall, producers are seeking mark-ups similar in size to those in the latest price talks concluded during the fourth quarter or at the beginning of the year, i.e. €15-20/100 kg. Some companies are already starting to invoice more for decor paper made from mid-February onwards. Higher prices will generally apply from the beginning of April at the latest. Decor paper converters note that they have little room for manoeuvre in current talks, as manufacturers are adopting a relatively consistent stance. □

## Exploding energy costs make paper price increases inevitable, Inapa says

Wholesale company Inapa Deutschland reports that it has repeatedly adjusted its selling prices since autumn last year, and that delivery times are long across all areas. In a report the company analyses the complex causes of this tense situation and gives an outlook for the months ahead.

Inapa underlines that the development of selling prices in the German paper and packaging market is currently primarily attributable to one factor, i.e., the drastic rise in energy prices. At present, producers have to pay between 300 per cent and 400 per cent more for electricity and gas than a year ago. And although this concerns all segments of the industry, not all operations are as energy-intensive as those of Inapa's suppliers. Producers started to pass the massive cost increase resulting therefrom on to wholesalers and retailers in late summer last year – in a never ending number of new price increases. The inevitable consequence is that selling prices in

all grade areas have also been gradually adjusted.

### Reduced supply due to pandemic

Energy prices are the most prominent factor pushing prices up, but by far not the only one, reports Inapa. Another factor, which simultaneously has a huge influence on delivery periods, is reduced supply that meets with growing demand. In autumn 2021, the shortage was still primarily attributable to producers having cut their production at the beginning of the pandemic and failed to increase production volumes to an extent that would correspond to the rise in demand.

According to Inapa, the consequences are still being felt today – demand is far higher than supply, in all areas. This situation was aggravated, at least at times, by the fact that as an understandable precaution, many buyers ordered substantial volumes to fill their warehouses up to the top.

True, in the meantime, curbed production in view of the pandemic no longer plays a role. But a long-term trend that Covid-19 only reinforced has now made itself felt with all the more force, especially in the area of graphic paper: many – and above all large – producers have shifted their production from paper to containerboard, as suggested by the immense growth of e-commerce.

Figures compiled by the German statistical office in November 2021 illustrate the effects this situation has had on Germany as a country with a traditionally high consumption of paper. The statistics show that the volume of printing, writing and copy paper produced in the course of a decade decreased by almost one third. Nevertheless, according to Inapa, as far as can be seen to date in 2022, market demand for graphic paper far exceeds the volume manufactured at present.

Another factor contributing to the shortage of supply in all areas was, however, not yet foreseeable until shortly before the end of 2021: since the beginning of January 2022, a major international pulp and paper producer in Finland has been affected by a strike. Most recently the responsible



parties said the strike would probably end in mid-March.

Independent of when the strike will actually end, this production stoppage that has already lasted for many weeks now will still be a burden for many weeks to come because it will affect the delivery dates of orders placed during the strike, writes Inapa.

In addition, globally reduced freight capacity has also had a considerable effect since last year, on both prices and delivery times. Inapa reports that the availability of sea freight containers in particular continues to be highly insufficient. As a result, freights charged by shipping companies are correspondingly high. In Europe, the situation is still aggravated by the tight situation in road haulage, last but not least caused by the shortage of truck drivers.

High transport costs coupled with lower transport capacity are having another effect, reports Inapa: printing orders formerly outsourced abroad – such as for exercise and other books – have been increasingly relocated to central Europe and carried out locally. This trend is further increasing the demand for paper within the country. In addition, prices of pulp, chemicals, recycling and packing materials have risen substantially, in part by even up to 170 per cent.

#### Record price levels and long delivery periods

The combination of all of these factors has led to today's record level of selling prices charged for paper and packaging. And although forecasts invariably include an element of uncertainty, there is reason to expect that no relief will set in at least until the end of the first half of 2022. In contrast, further price increases are by far more likely, reports Inapa.

With a view to delivery times, the picture is nearly the same. For example, in the indent business customers ordering woodfree coated paper should better expect delivery periods of three months and more instead of the two to four weeks usual in the past, even if they order large quantities and special sizes.

In the area of cartonboard, delivery periods of three months are regarded as the minimum, and even periods of up to six months cannot be ruled out either. According to Inapa, the bottlenecks seen in the indent business make customers order more in the warehousing business, which means inventory holdings and hence availability are also on the decline. □

## Another Canadian pulp producer curtails production – Canfor curbs output at Taylor Pulp mill

Canfor Pulp Products has announced another curtailment of bleached chemi-thermomechanical pulp (BCTMP) production at its Canadian Taylor Pulp mill, which will last at least six weeks. This curtailment will reduce the mill's BCTMP output by at least 25,000 t. Canfor explains that this measure has become necessary due to significant transportation shortages in the region, which have resulted in inventories at the pulp mill reaching capacity. "Taylor Pulp has been dealing with ongoing transportation challenges that have significantly impacted the facility's ability to ship product," says Don Kayne, CEO, Canfor Pulp.

As early as in the beginning of December, Canfor was forced to cut production at the BCTMP mill for several weeks. At the time torrential rainfall over several consecutive days made the roads impassable in British Columbia and made it extremely difficult to transport pulp from the mill. As a result, Canfor's finished goods inventories were filled to the top.

Canfor explains that as Taylor Pulp is already facing rising fibre costs due to the constrained fibre supply in the region and a weaker longer-term outlook for BCTMP markets, the current logistical

issues have created a very challenging business environment for Taylor Pulp. Canfor Pulp will continue to monitor the bottlenecks occurring in the supply chain during the production curtailment and assess opportunities to improve the operating economics of the mill.

The Taylor Pulp mill is the only Canfor plant to produce BCTMP. Its capacity totals 220,000 tpy.

#### Paper Excellence and Alberta-Pacific have also curbed production

Canfor has thus become the next company in Canada to curtail its pulp production due to transportation problems. It was only recently that Paper Excellence announced its intention to reduce BCTMP production in Meadow Lake, Saskatchewan, around 1,000 km south of Canfor's Taylor Pulp mill, for the time being due to repeated and lasting rail transport interruptions.

At the end of January, Canadian pulp producer Alberta-Pacific Forest Industries had to temporarily halt production at its plant in the Province of Alberta because of insufficient rail transport capacity. The facility has a capacity of 650,000 tpy of bleached market pulp – both softwood and hardwood pulp. □

## Paper Excellence scales down pulp production in Meadow Lake

Canadian company Paper Excellence has indefinitely scaled down pulp production at its Meadow Lake mill in Saskatchewan due to repeated and sustained lack of rail services, the company announced on 11 February. The site can reportedly produce 410,000 tpy of bleached chemo-thermomechanical pulp (BCTMP).

According to Paper Excellence, problems with rail traffic began at the end of November 2021 when Canadian National Railway (CN Rail) progressively slowed down transport of BCTMP produced at Meadow Lake to ports. Paper Excellence has meanwhile exhausted all locally available storage facilities in order to cope with production output that cannot be delivered to customers and can do little else except to slow down production.

"We are extremely concerned about this railway situation and hope that it can be resolved soon," said Stew Gibson, Vice President, Operations and Logistics. The company plans to return the mill to full production once reliable railway service is reestablished.

Meadow Lake Mechanical Pulp employs 190 people and has been owned by Paper Excellence since 2007. □

## Fedrigoni buys self-adhesive materials producer Divipa

Fedrigoni group has acquired family-owned Spanish self-adhesive materials producer Divipa. According to Fedrigoni, Divipa develops, manufactures and distributes self-adhesive materials with 50 employees at the Derio facility near Bilbao. The company's sales for 2021 are estimated to amount to €24m. The Divipa owners transferred 100 per cent of the shares to Fedrigoni, but some members of the owner-family will remain in the management team. Financial details of the deal were not revealed.

"With the acquisition of Divipa, which joins the two self-adhesives production units we already have in Spain, we continue our expansion in the increasingly promising sector of self-adhesive materials. This operation will allow us to increase production capacity and create numerous synergies in production and procurement," said Fulvio Capussotti, Executive Vice President of the Fedrigoni Self-Adhesives division.

The acquisition in Spain would strengthen Fedrigoni's position in the self-adhesive materials market in Europe and confirm its position as the third player in the world, the group explained. Divipa represents Fedrigoni's fifth acquisition in the self-adhesive market in the last two years. □

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